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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 2, 1981
VOLUME XVIII, NUMBER 44

Bad News For The Economy

The pace of business slowed considerably in September and will probably continue to fade. The Government's index of leading economic indicators, which is designed to forecast economic activity two to three months ahead, collapsed by 2.7 per cent in September, month-over-month. This represents the largest monthly drop since April, 1980, when the economy was falling rapidly, leading to a 9.9 per cent annual rate drop in the "real" GNP for that year's second quarter. Similarly, the decline posted by the index of coincident indicators--which moves in tandem with economic activity—also demonstrates a weakening in business conditions. It has now declined for two months in a row and September's drop of 0.6 per cent is the largest since May, 1980.

Of the ten leading indicators available for September, eight declined. Importantly, the average workweek of production workers contributed the greatest decline and was responsible for more than one-third of the total slide. It contracted by 2.3 per cent in September, compared with the previous month, as many manufacturers cut production and reduced operating capacity in response to slowing final demand and swelling inventories. It does not augur well for the employment situation in the near future since more layoffs may be expected.

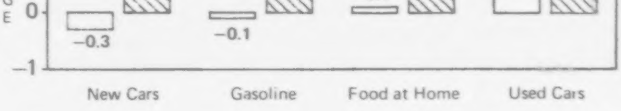
Purchasing managers of major corporations confirm a softening in the economy. A smaller number report slower deliveries from their suppliers than a month ago, which means that the economy is not as robust and industries are not as "busy" as they were earlier this year. This indicates that demand is waning and backlogs are diminishing. Building permits for new housing construction declined by 2.4 per cent in September, standing nearly 45 per cent below year-earlier levels. This portends further weakness for the construction sector and its related or "downstream" industries. Other indexes which contributed to the decline were: the layoff rate, new orders for durable goods in 1972 dollars, contracts and orders for plant and equipment in 1972 dollars, stock prices and the money supply. Only sensitive materials' prices registered an increase.

The CPI Is Not Perfect . . .

Depending on the method of measurement, the trend in the rate of inflation went in two opposite directions in September. When measured by the producer price index (PPI), inflation slowed to a miniscule 0.2 per cent, month-over-month, from 0.3 per cent in August. On the other hand, the consumer price index (CPI) jumped by 1.2 per cent during September, which translates into a 14.4 per cent seasonally adjusted annual rate before compounding. However, a trip to the supermarket, a new car showroom or a gasoline station is more likely to reveal a moderation in inflation, rather than a worsening—and for many items, even declines in prices.

It seems that the CPI exaggerated the rate of inflation because of statistical adjustments. The Bureau of Labor Statistics uses seasonal adjustment factors in an attempt to eliminate the effects of fluctuations which occur at the same time every year and are similar in magnitude. These include price movements resulting from such factors as changing climatic conditions, production cycles, model changeovers and holidays. The influence of these adjustments became particularly obvious in September on food, car and gasoline prices (see chart).

MONTH-OVER-MONTH PERCENT CHANGE IN SELECTED CPI INDEXES: SEASONALLY ADJUSTED VS. UNADJUSTED DATA (SEPTEMBER 1981)



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. . . Overstating Several Components . . .

Food prices went up by a seasonally adjusted 1.2 per cent in September, from the previous month—the largest advance in almost a year. Without adjustment, they inched up only 0.1 per cent. It seems that in the case of agricultural products, it is almost impossible to adjust correctly for seasonality, since it is difficult to determine what the normal seasonal pattern is. Put simply, such unusual occurrences as drought, freezes, natural disasters, pestilence and long livestock cycles distort the outcome for a particular year which then improperly affects the following year's calculations. As a result, it is sometimes more useful to look at the numbers on an unadjusted basis. Actual results show that food price inflation moderated once again. The rise in food prices over the last two months has been 3.5 per cent, at an annual rate, while the adjusted index showed a jump of 12.3 per cent during this period.

Similarly, the actual price of new cars declined by 0.3 per cent in September, month-over-month, reflecting the extensive rebate programs offered by the major domestic manufacturers. However, the CPI, which factors out the "normal" seasonal price decline that occurs every year in early fall—because of clearance sales held by dealerships in order to make room for new models introduced in early October—shows an increase of 0.6 per cent.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/21/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.300	+ 2.316	+ 3.269
Loans to Depository Inst.	1.255	+ .145	+ .057
Float	3.649	+ .671	– 1.474
Total Reserve Bank Credit	148.742	+ 3.497	+ 5.509
Treasury Deposits with Federal Reserve Banks	3.743	+ .786	+ .542
Currency Outside Banks	124.807	+ 1.032	+ 4.810
Member Bank Reserves:			
Required	41.245	+ 1.503	– .875
Excess (Deficiency)	.275	– .010	+ .197
Total Reserves Held	41.520	+ 1.493	– .678
Net Borrowed Reserves	.825	+ .158	– .225
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.490	– .673	+ 4.891

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1-B		434.3	+ 2.9‡	+ 4.2‡
M2	(September '81)	1,786.6	+ 8.5	+ 8.6
M3	(September '81)	2,131.7	+ 10.1	+ 11.4
L	(July '81)	2,523.8	+ 10.8	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/30/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.75%	13.00%	12.80%
* Federal Agencies	13.95	14.40	15.40
* Project Notes—Taxfree (46% Taxable Equivalent)	14.72	15.56	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.85	14.90	15.63

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	14.25%	Nov.	14.40%
15- 29 days	14.38	Dec.	14.35
30- 59 days	14.50	Jan.	14.30
60- 89 days	14.50	Feb.	14.30
90-179 days	13.75	Mar.	14.30
180-239 days	13.75	Apr.	14.20
240-270 days	12.00		

‡ Industrial Paper—Prime			
30- 89 days	14.38%	† Federal Funds Effective Rate	14.35%
90-120 days	14.38		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,947	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,508	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	– 0.6%	– 1.6%	2.4%
Change in Consumer Prices (all urban consumers)*	Sept '81	14.4%	9.6%	12.0%
Change in Producer Prices*	Sept '81	2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Sept '81	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force †	Sept '81	7.5%	7.2%	7.4%
Personal Income*	Sept '81	$ 2,461	$ 2,441	$ 2,206
Leading Indicators Composite Index (1967=100) †	Sept '81n	130.1	133.7	134.4
Industrial Production Index (1967=100) †	Sept '81	152.1	153.3	144.4
Net Change in Consumer Installment Credit †	Aug '81	$ 2.86	$ 1.95	$ 0.49
U.S. Merchandise Trade Balance †	Sept '81n	–$ 1.57	–$ 4.48	–$ 1.11
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Sept '81	918	934	1,482
New Construction Expenditures*	Aug '81	$ 231.0	$ 234.8	$ 217.9
Total Business Inventories †	Aug '81	$ 501.7	$ 498.1	$ 468.9
Total Business Sales †	Aug '81	$ 350.8	$ 354.5	$ 317.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Importantly, gasoline prices demonstrated a similar divergence. While the price at the pump declined for the sixth month in a row, the adjusted index posted the first increase since March—a sizable 0.6 per cent. However, the seasonal factors which were applied to previous years may not apply today, since the usual demand pattern has changed dramatically over the past two years. For one thing, motorists have been driving less in general (Financial Digest—September 4, 1981) and taking fewer driving vacations. As a result, the difference between summer and winter consumption has narrowed. Instead of peaking during the three months ending in August, consumption has been declining, on balance, since June. Therefore, the traditional slump in driving—and motor gasoline prices—in September did not occur this year. However, the same seasonal factors have been used in the calculation which, in effect, resulted in a "phantom" price increase.

. . . But Is Getting Better

Finally, after many years of sharp criticism, the Bureau of Labor Statistics is attempting to reconstruct the CPI by changing the homeownership component which represents more than 25 per cent of the total index. The new experimental series translates the change in mortgage rates, home purchase prices, home repair and maintenance costs into a rent equivalent, whereas previously these were counted directly. Using the new measure, the rise in

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/14/81)	131,372	– 1,272	+35,376
New York City (10/14/81)	32,408	+ 2	+ 9,977
Commercial Paper (10/14/81)	162,704	– 492	+38,327

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since	
Weekly Reporting Large Commercial Banks		Week Ago	Year Ago
Nationwide (10/14/81)	188,364	+ 265	+22,045
New York City (10/14/81)	54,923	+ 51	+ 6,022

Total Loans Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/14/81)	459,358	– 1,288	+47,263
New York City (10/14/81)	110,617	+ 738	+15,306

Financial Markets

	Friday 10/30/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.25%	– .50	– .01
180-Day Bills†	13.85	– .92	+ .02
Longest Bills†	14.35	– .73	+ .69
Recent Issues:			
15¹/₂s 10/31/83	14.30	– .36	
15⁷/₈s 9/30/85	14.65	– .67	
14⁷/₈s 8/15/91	14.50	– .86	
13⁷/₈s 5/15/11	14.47	– .29	
Municipals:			
Bond Buyer–20 Bond Index* (10/29/81)	12.99%	–0–	+ 3.54
Blue List Total ($ Million)	$ 821	+ $ 28	– $ 53
30-Day Visible Supply ($ Million)	$1,721	– $474	– $ 268
Total	$2,542	– $446	– $ 321
Corporates:			
Moody's Aa Composite (10/29/81)	15.95%	+ .11	+ 2.54
30-Day Visible Supply ($ Million)	$7,445	– $854	+ $3,822
Stocks:			
Dow-Jones Averages:			
Industrials	852.55	+ 14.56	– 71.94
Transportation	375.60	+ 8.44	+ 14.29
Utilities	106.85	+ 3.66	– 4.14
65 Stocks	340.63	+ 7.37	– 11.45
Standard and Poor's 500 Stocks	121.89	+ 3.29	– 5.58
N.Y.S.E. Composite Index	70.64	+ 1.81	– 2.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,846	+ 2,918	+ 9,596

* 46% Taxable equivalent 24.06%.

† Bond equivalent.

International Rates

	Friday 10/30/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.25%	15.13%
1 month	15.06	15.63
3 month	15.75	16.31
6 month	16.06	16.56
1 year	16.13	16.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.75%	15.55%
Long Term (7 to 15 yrs.)	15.75	15.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/30/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02657	37.64
Canada	.8306	1.2040
Denmark	.1383	7.2328
France	.1766	5.6625
Germany	.4433	2.2560
Italy	.0008333	1200.00
Japan	.004284	233.45
Mexico	.03915	25.54
Netherlands	.4023	2.4858
Switzerland	.5413	1.8475
U.K.	1.8453	.5419

the CPI would have been 0.8 per cent in September, compared with a 1.2 per cent month-over-month increase in the old index. What is more, since September, 1980, the CPI rose by 11.2 per cent, while the experimental one shows only a 9.2 per cent advance.

The old index overstated the monthly rate of inflation when mortgage interest rates were rising and understated it when rates were falling. In September, for example, home financing costs rose by 3.2 per cent, month-over-month, reflecting an increase of 2.5 per cent in mortgage interest rates and 0.7 per cent in house prices. The index incorrectly assumes that all homeowners have mortgages at prevailing rates, which change every month. Only those who have bought a new home in recent months—and their number has been dwindling—feel the pinch of rising home purchase prices and mortgage interest rates.

Despite the reconstruction of the CPI, the index does not incorporate the increasing number of creative mortgage financing schemes, which have, in effect, reduced home purchase prices and mortgage interest rates and have enabled purchasers to finance their new homes at below market interest rates. What is more, as was pointed out two years ago (Financial Digest—October 1, 1979), the index is not a cost of living measure, which seems to be a common misconception. Rather, every month it records the price changes of a fixed market basket of goods which is based on consumption patterns prevailing in 1972-73.

The CPI does not reflect consumption shifts, which are especially noticeable during periods of sharply rising prices when consumers switch to cheaper items. As a result, the impact of the more expensive item is greater than it should be, while the less expensive item is understated. The GNP deflator for personal consumption expenditures takes consumer preferences into consideration every quarter, when it is calculated. Therefore, it seems to be a better measure of the cost of living.

monetary muscle

Factoring and commercial financing to help your clients wrestle with cash-flow problems.

When lack of money is fighting your clients' plans for expansion and profit, Manufacturers Hanover Commercial Corporation can match their tough financial needs.

MHCC is expert in non-notification techniques, which means our program does not disrupt your clients' credit and collection relationships.

Through our factoring program, we can provide your clients with the cash they demand now and assume the credit risks by taking on the job of collecting from their customers.

With MHCC's commercial financing, companies may borrow funds whenever necessary, using their accounts receivable as security.

Our years of experience with companies of all sizes, in many varied industries, have made us a recognized leader in the field. Moreover, MHCC's team of cash and credit specialists will work with your clients in designing programs to fit their individual needs.

For extra capital to launch a new product or money to bridge the gap between production and delivery, MHCC offers a sound financial commitment. With the monetary muscle of the $55-billion Manufacturers Hanover organization behind us, your clients can be sure we'll be around to deliver on the promises we make.

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Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

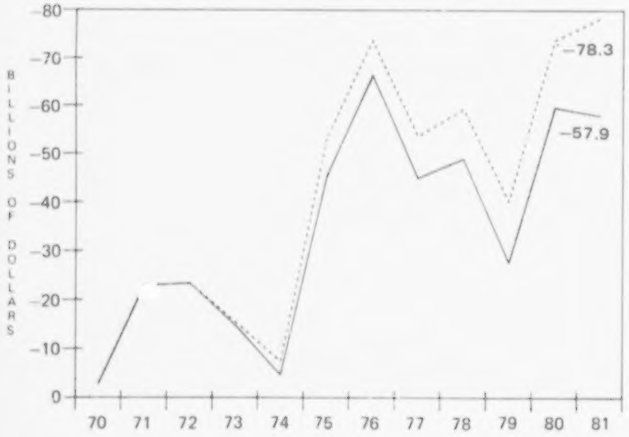
MONDAY, NOVEMBER 9, 1981
VOLUME XVIII, NUMBER 45

Washington Sets A Record

One of the more persistent fears overhanging the credit markets is that expanding Federal government borrowing requirements will increasingly displace private sector credit needs. Recent financial developments have done little to relieve these concerns—despite a slight dip in the size of the reported budget deficit in fiscal year 1981. Buoyed by a $6.9 billion surplus in September, the fiscal 1981 red ink total narrowed to $57.9 billion, slightly below the $59.6 billion deficit posted in fiscal 1980.

Once again, spending increases were dominated by stepped-up income security outlays as well as interest payments, despite the added emphasis being placed on national defense. Together, these outlays accounted for two of every three additional on-budget dollars spent in fiscal 1981, while increased defense spending accounted for about 29 per cent of the $81 billion expenditure gain. Clearly, any substantial increase in defense spending above current levels in the absence of either new revenue sources or scaled-back nondefense spending and interest outlays, will dash any residual hopes that the Federal budget can be balanced by fiscal 1984.

'REPORTED' BUDGET DEFICIT (LINE) VS. 'ENLARGED' BUDGET DEFICIT (DOT)



What is more, the regular budget deficit provides an increasingly distorted picture of trends in Federal finance. In fiscal 1981, "off-budget" outlays, primarily those of the Federal Financing Bank (FFB), soared to more than $20 billion—$6 billion higher than in fiscal 1980. Created at the end of 1973 and commencing operations in 1974, the FFB (which possesses unlimited borrowing authority at the Treasury) is authorized to purchase the loan assets of such on-budget agencies as the Export-Import Bank and Farmers Home Administration.

But in so doing, the FFB not only provides additional resources to the affected agencies but actually converts on-budget loans into off-budget outlays. Since there is no substantial difference in the impact of on- and off-budget Federal spending (or associated borrowing requirements), these activities should be included with the on-budget totals when measuring the size and effects of the Federal deficit. Doing so results in an "enlarged" Federal deficit of $78.3 billion in fiscal 1981, $4.5 billion above the fiscal 1980 level—transforming what had been a modest narrowing of the regular budget deficit into a new record high.

Corporate Profits Are Depressed . . .

Another piece of bad economic news involves the third-quarter earnings picture. According to preliminary estimates by this Bank, corporate profits (adjusted for inventory gains) posted their second quarterly drop in a row, falling 1-1/4 per cent, quarter-to-quarter. Although corporate earnings were about 3.5 per cent above their depressed year-earlier levels, they were still six per cent below the peak reached in the first quarter of 1980. What is more, there are many signs pointing to another fall in the current quarter.

Last quarter's earnings were depressed once again by lackluster final sales, rising labor and financing costs, the strong external value of the dollar as well as a large drop in productivity—the first this year. But the decline in corporate earnings was not nearly as steep as that posted during the previous quarter when they fell by six per cent. One reason is that during the three months ending in September, many producers were able to raise the prices of their products while the cost of raw materials used for production declined. The producer price index shows that during the July-September period

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finished goods' prices rose at an annual rate of 3.7 per cent while the cost of crude materials declined by nearly five per cent. This is in sharp contrast to the previous three-month period, when the rise in raw materials' prices outpaced the increase in the price of finished products.

. . . By The Rising Dollar And Labor Costs

However, partially offsetting this favorable spread was the sharp rise in unit labor costs which reflect changes in hourly compensation and productivity. Since hourly compensation advanced at an annual rate of 9.3 per cent in the third quarter compared with the second and productivity declined, unit labor costs jumped by 11.4 per cent. This was virtually double the increase registered during the preceding quarter. What is more, high labor costs may continue to impact earnings for some time. Major collective bargaining settlements reached in private industry during the three months ending in September, provided wage adjustments averaging 12.1 per cent (not including cost-of-living clauses)—up sharply from an advance of 10.6 per cent received during the first six months of the year. The average life of the negotiated contract was almost three years.

Another important deterrent to profitability last quarter was the rising external value of the dollar vis-à-vis other major currencies. One of the more

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/28/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.103	− 2.197	+ 1.561
Loans to Depository Inst.	1.187	− .068	− .248
Float	2.995	− .512	− .319
Total Reserve Bank Credit	145.643	− 2.957	+ 3.888
Treasury Deposits with Federal Reserve Banks	3.069	− .674	− .121
Currency Outside Banks	123.384	− 1.423	+ 4.469
Member Bank Reserves:			
Required	40.625	− .620	− 1.305
Excess (Deficiency)	.223	+ .090	+ .187
Total Reserves Held	40.848	− .530	− 1.118
Net Borrowed Reserves	.817	− .150	− .495
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.482	− .008	+ 4.805

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	431.1	+ 3.1‡	+ 4.1‡
M2 (September '81)	1,786.6	+ 8.5	+ 8.6
M3 (September '81)	2,131.8	+ 10.2	+ 11.4
L (July '81)	2,521.3	+ 10.4	+ 11.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 11/6/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	11.90%	12.35%	12.10%
* Federal Agencies	12.55	13.65	13.90
* Project Notes—Taxfree (46% Taxable Equivalent)	12.50	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.75	13.88	14.50

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.50%	Dec.	13.65%
15- 29 days	13.50	Jan.	13.45
30- 59 days	13.50	Feb.	13.35
60- 89 days	13.50	Mar.	13.35
90-179 days	13.25	Apr.	13.35
180-239 days	12.50	May	13.10
240-270 days	12.00		

‡ Industrial Paper—Prime			
30- 89 days	13.60%	† Federal Funds Effective Rate	13.80%
90-120 days	13.50		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,947	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,508	$ 1,510	$ 1,472
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Civilian Employment (Thousands of Persons) †	Oct '81n	98,217	98,270	97,206
Unemployment as % of Civilian Labor Force †	Oct '81n	8.0%	7.5%	7.6%
Personal Income*	Sept '81	$ 2,461	$ 2,441	$ 2,206
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Industrial Production Index (1967=100) †	Sept '81	152.1	153.3	144.4
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U.S. Merchandise Trade Balance †	Sept '81	−$ 1.57	−$ 4.48	−$ 1.11
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New Construction Expenditures*	Sept '81n	$ 231.6	$ 232.6	$ 224.6
Total Business Inventories †	Aug '81	$ 501.7	$ 498.1	$ 468.9
Total Business Sales †	Aug '81	$ 350.8	$ 354.5	$ 317.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

significant major effects was on the profitability of foreign operations of domestic companies. As the dollar appreciated, companies with extensive foreign operations, such as those in the petroleum and pharmaceutical industries, suffered sizable currency translation losses, when converting their overseas earnings streams (expressed in local currencies) into dollars.

The worst results were recorded once again by automobile manufacturers. Reflecting the slump in new car sales, high interest rates, retooling costs for 1982 models and such costly promotional campaigns as rebates and interest subsidies, the Big Three reported a combined after-tax loss of almost $1 billion during the third quarter. So far during the fourth quarter, new-car sales fell even further—reaching a 23-year low in October—despite the continuation of costly promotions, portending another poor quarter for the auto companies.

Despite the slide in auto sales and auto production, the steel industry fared better than expected. While some portion of earnings was due to such nonrecurring gains as sales of plant and equipment, steelmakers' profits were boosted by sales of pipes and tubes used for gas and oil exploration. In addition, their earnings were improved by cutting expenses, as many workers were laid off, plants were closed, inefficient operations phased out and inventories brought more in balance with demand.

(Continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/21/81)	129,626	– 1,691	+32,940
New York City (10/21/81)	32,042	– 366	+ 9,522
Commercial Paper (10/21/81)	163,729	+ 1,050	+40,642

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/81)	188,333	– 6	+21,996
New York City (10/21/81)	55,055	+ 112	+ 6,650
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/81)	460,191	+ 888	+48,819
New York City (10/21/81)	112,430	+ 1,813	+17,799

Financial Markets

		Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.63%	– .62	– .39
180-Day Bills†	13.12	– .73	+ .28
Longest Bills†	13.50	– .85	+ 1.33
Recent Issues:			
15$\frac{1}{2}$s 10/31/83	13.83	– .47	
15$\frac{7}{8}$s 9/30/85	13.97	– .68	
14$\frac{1}{4}$s 11/15/91 (When Issued)	13.90	NA	
14s 11/15/11 (When Issued)	13.82	NA	
Municipals:			
Bond Buyer–20 Bond Index* (11/5/81)	12.44%	– .55	+ 2.80
Blua List Total ($ Million)	$ 747	– $113	– $ 61
30-Day Visible Supply ($ Million)	$1,875	+ $154	– $ 515
Total	$2,622	+ $ 80	– $ 576
Corporates:			
Moody's Aa Composite (11/5/81)	15.41%	– .54	+ 2.07
30-Day Visible Supply ($ Million)	$6,636	– $809	+ $2,553
Stocks:			
Dow-Jones Averages:			
Industrials	852.45	– .10	– 79.97
Transportation	383.17	+ 7.57	+ 19.95
Utilities	107.53	+ .68	– 2.41
65 Stocks	343.18	+ 2.55	– 10.63
Standard and Poor's 500 Stocks	122.67	+ .78	– 6.51
N.Y.S.E. Composite Index	71.33	+ .69	– 3.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,498	+ 5,652	+ 1,243

* 46% Taxable equivalent 23.04%.

† Bond equivalent.

International Rates

	Friday 11/6/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.00%	14.25%
1 month	14.50	15.06
3 month	14.69	15.75
6 month	15.00	16.06
1 year	15.13	16.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.25%	15.75%
Long Term (7 to 15 yrs.)	15.35	15.75

FOREIGN EXCHANGE SPOT RATES New York Opening (11/6/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02672	37.43
Canada	.8368	1.1951
Denmark	.1400	7.1453
France	.1783	5.6100
Germany	.4498	2.2233
Italy	.0008435	1185.50
Japan	.004369	228.90
Mexico	.03906	25.60
Netherlands	.4091	2.4445
Switzerland	.5576	1.7935
U.K.	1.8733	.5338

In contrast, producers of nonferrous metals in general and copper in particular were hit hard by the slump in housing, automobiles and machinery markets. For example, during July and August (latest available data), consumption of copper slipped by four per cent, and stocks held by both producers and consumers swelled.

U.S. Trade Begins To Weaken

In spite of continuing dire predictions of a plunging U.S. trade deficit due to the strength of the dollar, the preliminary trade figures for September show no irrefutable evidence of this trend. As was pointed out last month (Financial Digest—October 9, 1981), U.S. trade has been remarkably stable so far this year. The large $5.6 billion trade deficit (seasonally adjusted; exports, f.a.s./imports, c.i.f.) in August, which was widely heralded as conclusive evidence of a decline in exports and a surge of imports, gave way in September to a much smaller trade deficit of $2.6 billion. Exports, in fact, rose by 3.2 per cent in September over the previous month and imports fell by 9.9 per cent.

Taking a longer view, the preliminary data on the merchandise trade deficit for the third quarter of 1981 on the balance of payments basis indicate some deterioration in the U.S. trade position. For the quarter as a whole, imports declined three per cent while exports declined four per cent compared with the previous quarter. While the accumulated trade deficit for the first three quarters of this year appears to be slightly lower than for the same period last year, the data nonetheless suggest a gradual and intermittant erosion of the U.S. trade position.

Last month's decline in imports can be explained by the growing weakness of the U.S. economy, and to some extent this may account for the continued strength in exports. As domestic demand declines, delivery times for export orders shorten. This tends to push exports forward, which implies that deliveries anticipated for future months may have been recorded in September. If this proves to be the case, then exports over the next several months could weaken, adding to the trade deficit. The U.S. trade position will, however, receive some near-term benefits if the dollar weakens in response to the decline in U.S. interest rates. This would make exports more competitive and imports more expensive.

A surplus on U.S. trade with Western Europe is an important feature of the U.S. trade balance and helps compensate for deficits in other areas. Last month, the U.S. trade surplus with Western Europe was $1.5 billion after a small $115 million surplus in August. In the first eight months of this year, the U.S. surplus with Western Europe was running at a seasonally adjusted annual rate of $14 billion, compared with almost $21 billion last year.

The U.S. trade deficit with Japan remains large. In the past two months, the United States ran a trade deficit of $3.6 billion with Japan. This was 44 per cent of the total U.S. trade deficit for that period. This year's total deficit on trade with Japan is expected to be close to $15 billion after a $10 billion deficit in 1980. Japan also expects to show a $10 billion surplus this year in its trade with Western Europe. Overall, Japan anticipates a trade surplus of some $6.5 billion this year, which will contribute to an expected current account surplus of close to $10 billion for this country, after a deficit of $11 billion in 1980.

THE CORPORATE TRUSTEE ENDURANCE TEST.

DURABILITY: When picking a corporate trustee for a bond issue—whether you're a corporation or municipality—pick carefully. Because you're going to have to live with that trustee a long time.

Manufacturers Hanover is one of the nation's largest and most experienced bond trustees. We have the expertise to anticipate problems before you even close the issue. By identifying trouble spots early, everything will run more smoothly. Year after year.

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If you want a corporate trustee who can meet every test, talk to Manufacturers Hanover. For more information on our whole range of indenture trusteeship services, call Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, New York, N.Y. 10015.

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 16, 1981
VOLUME XVIII, NUMBER 46

Consumer Spending Drops . . .

Although many retailers expected the recent income tax cut to boost their sales, the hoped-for gain has not yet materialized. Any new demand arising from the relatively small increase in individual take-home pay has been more than offset by the rapidly weakening economy, the deteriorating employment situation and renewed consumer pessimism. As a result, sales at the nation's retail establishments plunged by 1.5 per cent in October, month-over-month—before adjustment for inflation—on top of a 0.1 per cent decline in September.

With only one exception this was the largest monthly drop since spring, 1980. It was paced by a 5.5 per cent decrease in durable goods sales—mainly autos, which plunged by 8.7 per cent, month-over-month. The picture worsens even further when the effect of rising prices is subtracted. Then, the actual volume of products sold in October declined by close to 2½ per cent from the already depressed level in September.

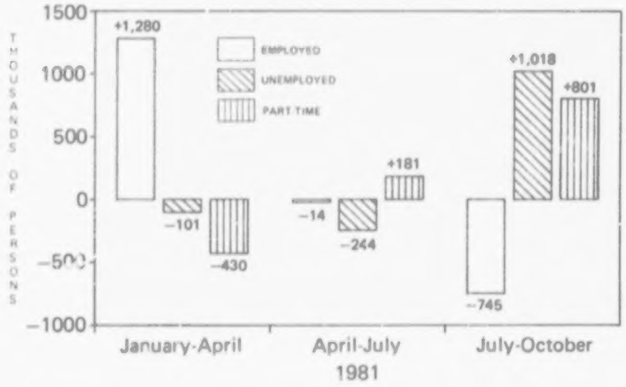
"Real" retail sales have been sluggish for more than two years. In October, they were about four per cent below the June level and almost five per cent lower than they were eight months ago. Importantly, a continuation of this trend through the remainder of the Christmas selling season would have a devastating impact on many retailers' full year 1981 results, since a substantial proportion of their yearly sales and earnings occurs during this time period.

. . . As Buyers' Spirits Sag . . .

Spending by consumers is usually influenced to a large extent by their near-term outlook on the economy in general and employment and income prospects in particular. Unfortunately, peoples' current attitudes do not seem to be encouraging. The consumer confidence index compiled by the Conference Board has now sagged for two months in a row. It dropped by almost four points in October, on top of a sizable 9.3 point slide in September.

More and more people think that business conditions are poor and are very concerned about their jobs. During the last poll the pessimists outnumbered the optimists by a large margin, in sharp contrast to the results observed in the summer months, when optimists outnumbered the pessimists by a margin of two to one. What is more, in October, the buying plans index, which measures consumers' intentions to purchase automobiles, homes, large appliances or home furnishings in the next six months, declined by 4.4 points month-over-month, after a more than seven point retreat during the previous month.

CHANGES IN THE NUMBER OF PERSONS EMPLOYED, UNEMPLOYED, AND EMPLOYED PART TIME FOR ECONOMIC REASONS



Buyers' concerns about their future ability to pay were evident in September as they attempted to reduce their outstanding debts. Although installment debt rose by $2.82 billion in September—only slightly less than the previous month's increase of $2.86 billion—it was almost entirely due to the expansion in automobile credit. As auto sales soared, boosted by extensive rebates and subsidies, automobile debt surged by $2.28 billion, compared with an average growth of slightly more than $1.1 billion in the previous three months. However, automobile sales have declined significantly since September, suggesting that the increase in total outstanding debt in October was considerably smaller.

. . . They Shy Away From Credit . . .

Without auto loans, the picture changes significantly. Most important, revolving credit, which includes credit cards at retailers, gasoline companies and commercial banks, expanded at a much slower

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pace in September than during the previous month, and at less than half the average pace registered in the previous three months. Outstanding credit for mobile homes, although still posting good-sized gains, also grew at a slightly slower rate than in the month before.

To be sure, the rate of debt accumulation in the past 12 months has been very low compared with levels prevailing before the 1980 economic decline. For example, during the past year, the average monthly addition has been about $1.9 billion, while during the 12 months preceding the 1980 downturn, the average monthly gain was more than 70 per cent higher. It seems that people have become reluctant to finance their purchases by increased borrowing when faced with uncertainties about the future and lofty finance charges. They have become less willing to acquire new debt while in the past six months, they have been using a decreasing proportion of disposable income to repay existing obligations.

The ratio of debt liquidation to disposable income has dropped from 16.5 per cent in February to 15.5 per cent in September. Furthermore, consumers have been paying for their purchases more with cash rather than financing them. The ratio of debt extensions to retail sales has been trending downward since March—falling from 34.0 per cent to 33.1 per cent in September. This compares with an average of almost 37 per cent of purchases bought on credit during the two-year period ending in 1979.

Despite this cautious attitude on the part of most

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/4/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.661	+ .558	+ 2.536
Loans to Depository Inst.	1.237	+ .050	− .641
Float	2.516	− .515	− .522
Total Reserve Bank Credit	146.270	+ .592	+ 4.383
Treasury Deposits with Federal Reserve Banks	3.410	+ .341	+ 1.119
Currency Outside Banks	123.226	− .165	+ 4.120
Member Bank Reserves:			
Required	40.521	− .104	− 1.511
Excess (Deficiency)	.298	+ .039	− .269
Total Reserves Held	40.819	− .065	− 1.780
Net Borrowed Reserves	.805	+ .024	− .434
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.154	+ .672	+ 5.304

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	433.2	+ 2.9‡	+ 3.8‡
M2 (October '81)	1,800.3	+ 9.1	+ 8.8
M3 (October '81)	2,143.5	+ 9.5	+ 11.2
L (July '81)	2,521.3	+ 10.4	+ 11.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 11/13/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.65%	11.00%	10.85%
* Federal Agencies	11.25	12.20	12.00
* Project Notes—Taxfree (46% Taxable Equivalent)	11.85	12.22	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	12.45	12.65	13.90

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	12.75%	Dec.	12.55%
15- 29 days	12.50	Jan.	12.45
30- 59 days	12.38	Feb.	12.00
60- 89 days	12.00	Mar.	12.10
90-179 days	11.75	Apr.	12.10
180-239 days	11.75	May	11.90
240-270 days	11.75		

‡ Industrial Paper—Prime			
30- 89 days	12.30%	† Federal Funds	
90-120 days	12.63	Effective Rate	13.05%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,947	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,508	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	− 0.6%	− 1.6%	2.4%
Change in Consumer Prices (all urban consumers)*	Sept '81	14.4%	9.6%	12.0%
Change in Producer Prices*	Oct '81n	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons) †	Oct '81	98,217	98,270	97,206
Unemployment as % of Civilian Labor Force †	Oct '81	8.0%	7.5%	7.6%
Personal Income*	Sept '81	$ 2,461	$ 2,441	$ 2,206
Leading Indicators Composite Index (1967=100) †	Sept '81	130.1	133.7	134.4
Industrial Production Index (1967=100) †	Oct '81n	149.5	151.8	146.6
Net Change in Consumer Installment Credit †	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Sept '81	−$ 1.57	−$ 4.48	−$ 1.11
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Sept '81	918	934	1,482
New Construction Expenditures*	Sept '81	$ 231.6	$ 232.6	$ 224.6
Total Business Inventories †	Sept '81n	$ 507.2	$ 502.5	$ 471.5
Total Business Sales †	Sept '81n	$ 354.2	$ 352.8	$ 327.8

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

consumers, there were many who found themselves in a precarious financial situation. During the 12 months ending in June, 1981, more than 450,000 personal bankruptcy cases were filed. This is 44 per cent higher than the previous year's total—and has no doubt risen since then. Although it has been aided to some extent by the implementation of a new and more liberalized bankruptcy law in October, 1979, the number of bankruptcies has more than doubled between the 12 month period ending in June, 1979 and the year ending in June, 1981.

. . . As Unemployment Shoots Up

By deteriorating sharply (see chart on first page), the employment picture has soured peoples' attitudes. The number of employed persons declined by a seasonally adjusted 745,000 between July and October, while unemployment rose by more than one million to 8.5 million—the highest number of unemployed workers since 1939. The unemployment rate jumped to eight per cent of the labor force, thus surpassing the peak of 7.6 per cent, recorded during the depths of the 1980 decline.

What is more, the unemployment situation is worse than it looks. There are many people who are now forced to work part-time for economic reasons. Their full-time workweek was reduced or they could not find full-time jobs. Over the past two months, their total has risen by 840,000 to a record five million in October. When these "partially" unemployed are added to the number of completely jobless, the total represents almost 13 per cent of the labor force—the highest percentage since May, 1975. **H**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/28/81)	129,768	+ 142	+30,308
New York City (10/28/81)	32,232	+ 190	+ 8,330
Commercial Paper (10/28/81)	164,630	+ 901	+41,411

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/28/81)	187,404	– 938	+20,862
New York City (10/28/81)	54,266	– 789	+ 5,702

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/28/81)	455,996	– 4,195	+42,152
New York City (10/28/81)	107,395	– 5,035	+10,810

Financial Markets

	Friday 11/13/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.94%	– 1.69	– 2.48
180-Day Bills†	11.83	– 1.29	– 1.37
Longest Bills†	12.03	– 1.47	– .31
Recent Issues:			
15½s 10/31/83	12.60	– 1.23	
15⅞s 9/30/85	13.14	– .83	
14¼s 11/15/91 (When Issued)	13.13	– .77	
14s 11/15/11 (When Issued)	13.13	– .69	
Municipals:			
Bond Buyer–20 Bond Index* (11/12/81)	11.43%	– 1.01	+ 1.93
Blue List Total ($ Million)	$ 703	– $ 44	– $ 9
30-Day Visible Supply ($ Million)	$2,125	+ $250	– $ 536
Total	$2,828	+ $206	– $ 545
Corporates:			
Moody's Aa Composite (11/12/81)	14.98%	– .43	+ 1.72
30-Day Visible Supply ($ Million)	$7,453	+ $817	+ $3,575
Stocks:			
Dow-Jones Averages:			
Industrials	855.88	+ 3.43	– 130.47
Transportation	386.56	+ 3.39	– 5.40
Utilities	110.97	+ 3.44	– 5.79
65 Stocks	346.67	+ 3.49	– 30.24
Standard and Poor's 500 Stocks	121.67	– 1.00	– 15.48
N.Y.S.E. Composite Index	70.85	– .48	– 8.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,190	– 4,308	– 6,246

* 46% Taxable equivalent 21.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 11/13/81**	Week Ago
Overnight	13.00%	14.00%
1 month	13.38	14.50
3 month	13.44	14.69
6 month	13.56	15.00
1 year	13.81	15.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.20%	15.25%
Long Term (7 to 15 yrs.)	14.85	15.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/13/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02692	37.15
Canada	.8420	1.1876
Denmark	.1402	7.1338
France	.1793	5.5763
Germany	.4517	2.2140
Italy	.0008450	1183.40
Japan	.004401	227.23
Mexico	.03891	25.70
Netherlands	.4136	2.4180
Switzerland	.5685	1.7590
U.K.	1.9038	.5253

At Manufacturers Hanover we don't put any one asset category on a pedestal.

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Our approach is, first of all, to use absolute rate of return objectives–derived directly from the precise characteristics of the retirement plan. So we can establish a realistic asset-mix policy that reflects your objectives and the investment future.

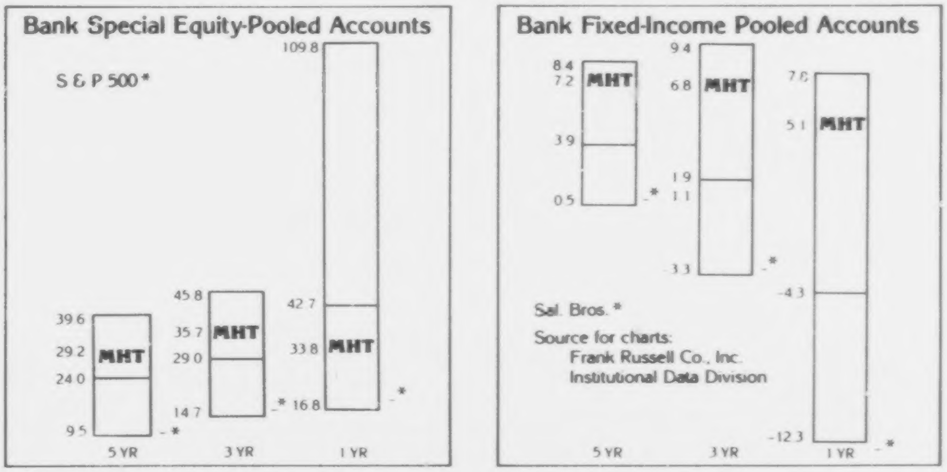
Investment vehicles are then chosen–but only after an intensive, objective analysis of the expected returns and the volatility associated with each possible asset category. Our lack of biases toward any particular type of asset enables us to deliver stable returns over the course of a market cycle.

As the charts show, this approach generally puts us in the upper-quartile level of returns in both special equity-pooled accounts and fixed-income pooled accounts.

Most importantly, Manufacturers Hanover runs each investment management program the way any well-run business operates. Techniques like long-range planning, contingency planning, quality control, and performance measurement guide every step of the decision-making process.

To learn more details about the Manufacturers Hanover approach to investment management, contact William C. Petty III, Vice President, at the address below or at (212) 957-0760.

Annualized Rates of Return–Periods Ending June 30, 1981



Source for charts:
Frank Russell Co., Inc.
Institutional Data Division

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 23, 1981
VOLUME XVIII, NUMBER 47

A Squeeze At The Local Level . . .

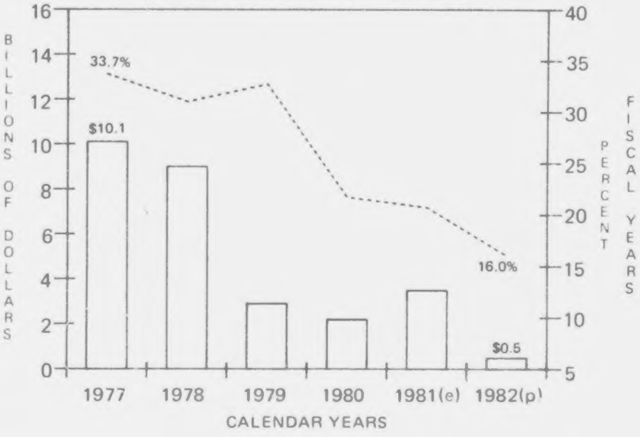
Despite the heightened concern in Washington and the financial markets over the size and timing of recently legislated Federal income tax cuts, it may be more appropriate to focus on the devastating impact which scheduled nondefense spending cuts could have at the state and local level—and, ultimately, the financial markets. These entities, in an attempt to cope with the twin challenges of reduced Federal grants and escalating costs, will probably have little choice but to either increase drastically income and property taxes as well as user fees, or scale back significantly essential and nonessential services if financial stability is to be preserved. In any event, the degree of success of these efforts will undoubtedly have a major impact upon the financial markets in coming months and, perhaps, years.

The large budget surpluses generated at the state and local level have often been cited as one reason why growing Federal budget deficits should not cause undue concern. And, indeed, state and local governments did generate a better than $110 billion cumulative budget surplus during the four years ending December, 1980 (including revenues arising from retirement and disability contributions), while, at the same time, purchasing almost $50 billion of U.S. government securities. It now seems likely, however, that the size of these surpluses is about to be trimmed, and trimmed significantly. Already the current operating portion of this surplus (which excludes social insurance funds) has nose-dived from more than $10 billion in 1977 to just about zero in the current quarter. What is more, since many of the services at the state and local level are Federally-mandated "entitlements," in such areas as health and nutrition, it appears a good bet that, in many areas, either a wide variety of taxes—whether income, property, user or excise—is about to rise, or the financial integrity of the local governing units is about to fall.

. . . Bodes Ill For The Financial Markets

As a result, local budget realities will soon be clashing head on with the wave of taxpayer revolts which has swept the country in recent years, most noticeably in California and Massachusetts. This, however, may be just a prelude to the potentially much more serious clash that could occur in the financial markets, if these trends persist. For in the absence of either scaled-back services and/or tax increases, the shrinkage of the state and local surplus will reduce not only its contribution to net national savings (about 15 per cent) but also the proportion of total Federal borrowings which it could finance (which has already been dropping sharply).

STATE & LOCAL GOVERNMENT OPERATING SURPLUS (BAR) VS. STATE & LOCAL GOV'T SAVINGS AS A % OF TOTAL FEDERAL BORROWINGS (DOT)



Washington, in turn, will thus be forced to seek additional funds from other sources, namely households and businesses. But, astonishingly, in fiscal 1981, total Federal and Federally-related borrowings were already just about equal to net private savings, with little room to spare. As a result, stepped-up Federal borrowings will simply displace further private sector credit demands, indicating once again that fiscal stimulus and monetary restraint are only compatible with a flattened private sector.

But At The Moment . . .

At the moment, however, the possibility of a sharp upturn in interest rates is far from investors' minds. Short- and long-term interest rates have moved sharply lower in recent weeks as a result of the intensifying recession, continued large shortfalls in the narrowly-defined monetary aggregates, expectations of an easing of Federal Reserve monetary policy and some abatement of commercial and

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industrial loan demand. During the four weeks ending November 18, for example, short-term interest rates dropped from 200 to 300 basis points, led by reductions in the key Federal funds rate. Long-term interest rates also moved lower, with top-quality corporate yields falling from 70 to 125 basis points.

These declines in interest rates are probably appearing none too soon, given the rapid fall-off in the economy. Almost all indicators of economic activity are now declining, with weakness becoming more evident in a variety of industries besides autos and housing. What is more, with little evidence of any near-term strength in the economy (with the exception of defense and defense-related industries), consumer spending expected to soften and a financial squeeze of sizable proportions now affecting the corporate sector, further sharp cutbacks in employment, inventories and capital outlays are imminent. These developments, in turn, will undoubtedly lead to a further weakening in private sector credit demands and subsequent downturns in interest rates.

But the fading economy is not the only development favorably affecting the financial markets. The continuing sluggish growth of the money supply, against the backdrop of recession, augurs well for some easing of monetary policy. As of the latest four-week average, M1-B was about $9 billion below its 1981 lower growth target boundary and

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/11/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.172	– .489	+ 2.573
Loans to Depository Inst.	.965	– .272	– 1.102
Float	2.722	+ .270	– 1.616
Total Reserve Bank Credit	146.029	– .177	+ 2.777
Treasury Deposits with Federal Reserve Banks	3.052	– .358	– .010
Currency Outside Banks	124.580	+ 1.353	+ 4.328
Member Bank Reserves:			
Required	39.637	– .884	– 2.049
Excess (Deficiency)	.267	+ .033	– .137
Total Reserves Held	39.904	– .851	– 2.186
Net Borrowed Reserves	.568	– .301	– .999
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.159	+ 1.005	+ 5.825

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1-B	435.6	+ 2.1‡	+ 3.6‡
M2 (October '81)	1,800.3	+ 9.1	+ 8.8
M3 (October '81)	2,143.5	+ 9.5	+ 11.2
L (July '81)	2,521.3	+ 10.4	+ 11.3

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/20/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.90%	10.45%	10.46%
* Federal Agencies	11.08	11.55	12.30
* Project Notes—Taxfree (46% Taxable Equivalent)	12.04	12.22	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.60	11.75	12.75

‡Finance Company Paper—Prime	
5- 14 days	11.38%
15- 29 days	11.38
30- 59 days	11.25
60- 89 days	11.25
90-179 days	11.00
180-239 days	11.00
240-270 days	10.50

‡* Bankers' Acceptances	
Dec.	11.50%
Jan.	11.35
Feb.	11.25
Mar.	11.25
Apr.	11.20
May	11.00

‡Industrial Paper—Prime	
30- 89 days	11.40%
90-120 days	11.25

†Federal Funds	
Effective Rate	12.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,957	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,513	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	0.6	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Sept '81	14.4%	9.6%	12.0%
Change in Producer Prices*	Oct '81	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons)†	Oct '81	98,217	98,270	97,206
Unemployment as % of Civilian Labor Force†	Oct '81	8.0%	7.5%	7.6%
Personal Income*	Oct '81n	$ 2,477	$ 2,462	$ 2,234
Leading Indicators Composite Index (1967=100)†	Sept '81	130.1	133.7	134.4
Industrial Production Index (1967=100) †	Oct '81	149.5	151.8	146.6
Net Change in Consumer Installment Credit†	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Sept '81	–$ 1.57	–$ 4.48	–$ 1.11
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Oct '81n	857	920	1,519
New Construction Expenditures*	Sept '81	$ 231.6	$ 232.6	$ 224.6
Total Business Inventories†	Sept '81	$ 507.2	$ 502.5	$ 471.5
Total Business Sales†	Sept '81	$ 354.2	$ 352.8	$ 327.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

more than $19 billion below its upper target boundary. Also, since the growth of M2 is now within its target ranges, the Fed has some leeway to take more aggressive steps to stimulate money supply growth (Economic Report—September, 1981) without deviating from its more fundamental, longer-run stance of monetary restraint. What this probably means is that it is only a matter of time before the Fed undertakes some easing measures, such as stepping up the provision of nonborrowed reserves to the banking system, guiding the Fed funds rate lower and probably trimming the discount rate, bringing it into better alignment with other market interest rates.

Short-term business credit demands, which have contributed to the high level of interest rates, are expected to weaken as the recession unfolds, and corporations undertake a significant paring of inventories, employment and capital spending plans. What is more, the Accelerated Cost Recovery System will soon be boosting cash flow, dampening credit demands at least for the next few months. Already, commercial and industrial loan demand at large weekly reporting banks has begun to weaken. Although increasing at a still robust 13.1 per cent seasonally adjusted annual rate during the three months ending November 4, it should still be noted that this rate is about one-half the rate of rise posted, at times, during the past few months. And, as short-term interest rates tumble, bond rates should fall, prompting more and more corporations

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/4/81)	128,180	– 1,528	+27,723
New York City (11/4/81)	31,577	– 655	+ 7,194
Commercial Paper (11/4/81)	163,709	– 921	+40,796

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/4/81)	189,868	+ 2,473	+20,339
New York City (11/4/81)	55,155	+ 889	+ 5,561

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/4/81)	460,691	+ 4,695	+41,894
New York City (11/4/81)	109,569	+ 2,174	+11,554

Financial Markets

	Friday 11/20/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.35%	– .59	– 4.65
180-Day Bills†	11.29	– .54	– 3.84
Longest Bills†	11.55	– .48	– 3.04
Recent Issues:			
12$^1/_8$s 11/30/83 (When Issued)	12.12	NA	
15$^7/_8$s 9/30/85	12.75	– .39	
14$^1/_4$s 11/15/91	12.85	– .28	
14s 11/15/11	12.90	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (11/19/81)	11.71%	+ .28	+ 2.21
Blue List Total ($ Million)	$ 987	+ $284	+ $ 155
30-Day Visible Supply ($ Million)	$2,217	+ $ 92	+ $ 501
Total	$3,204	+ $376	+ $ 656
Corporates:			
Moody's Aa Composite (11/19/81)	14.70%	– .28	+ 1.42
30-Day Visible Supply ($ Million)	$7,498	+ $ 45	+ $2,866
Stocks:			
Dow-Jones Averages:			
Industrials	852.93	– 2.95	– 137.00
Transportation	378.32	– 8.24	– 35.28
Utilities	111.42	+ .45	– 4.79
65 Stocks	343.89	– 2.78	– 40.26
Standard and Poor's 500 Stocks	121.71	+ .04	– 17.40
N.Y.S.E. Composite Index	70.99	+ .14	– 9.18
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,606	– 1,584	– 16,531

* 46% Taxable equivalent 21.69%.

† Bond equivalent.

International Rates

	Friday 11/20/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	12.38%	13.00%
1 month	12.44	13.38
3 month	12.75	13.44
6 month	13.06	13.56
1 year	13.25	13.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.00%	14.20%
Long Term (7 to 15 yrs.)	14.70	14.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/20/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02662	37.56
Canada	.8443	1.1844
Denmark	.1385	7.2228
France	.1767	5.6600
Germany	.4456	2.2440
Italy	.0008351	1197.50
Japan	.004570	218.83
Mexico	.03867	25.86
Netherlands	.4070	2.4573
Switzerland	.5564	1.7973
U.K.	1.9080	.5241

to raise long-term debt and pay down short-term debt—dampening money market pressures even further.

. . . The Markets Are Still Strengthening

In fact, the sharp weakening of the private economy has pushed into the background investor concerns over the magnitude of Federal government borrowing requirements, and their likely impact upon the financial markets. This could be a mistake. For in the middle of all the current "good news," the outlook for Federal finances, as well as those of state and local governments, has deteriorated dramatically. It now appears that the Treasury "recession" deficit could exceed $80 billion in fiscal 1982, with associated on- and off-budget borrowing requirements reaching as high as $105 billion—a new record and significantly above the $78.3 billion enlarged Federal deficit posted in fiscal 1981.

Of course, as long as private credit demands remain flattened by recession, the record deficit will tend to limit the decline in interest rates rather than push them higher. But, as the private sector revives, their credit needs and those of government will once again collide. If short-term interest rates spike back up, the yield curve will turn negative again, rewarding those investors who stay short while penalizing those remaining long. In turn, this would destabilize the bond markets, interrupting corporate attempts to raise long-term funds. H

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 30, 1981 VOLUME XVIII, NUMBER 48

For Housing . . .

Although the average interest rate on a conventional mortgage dropped last month for the first time since March, there is little to cheer about—yet. Mortgage rates dipped only one quarter of a percentage point from 18.30 per cent to 18.05 per cent. According to studies by this Bank, rates would have to fall below 15 per cent to bring potential homebuyers back into the market and to nearly 13 per cent before purchases would be seriously considered. Since a further easing in mortgage rates to these levels is expected to take place only at a snail's pace, the housing industry is anticipating another dismal year in 1982.

At today's prices of new and existing homes, and even more importantly, with the high cost of financing them, a substantial portion of the population cannot afford a new home. When taking into account the rule-of-thumb that monthly mortgage payments should not exceed one-fourth of a household's monthly gross income, about 85 per cent of first-time potential buyers would not be able to meet this standard when buying a median-priced existing home. When taxes and insurance are added to mortgage debt service, the proportion of those who cannot meet this requirement is even higher.

For example, after a downpayment of approximately 25 per cent on a median-priced existing home ($67,700), principal and interest payments on a 25-year conventional mortgage contracted at 18 per cent would total about $770 per month and absorb almost 45 per cent of gross median family income. Three years ago, in October, 1978, when the average mortgage interest rate was slightly below ten per cent and housing starts were running at a two million unit annual rate, principal and interest payments would have totaled about $341 per month, absorbing only 23 per cent of a typical family's income.

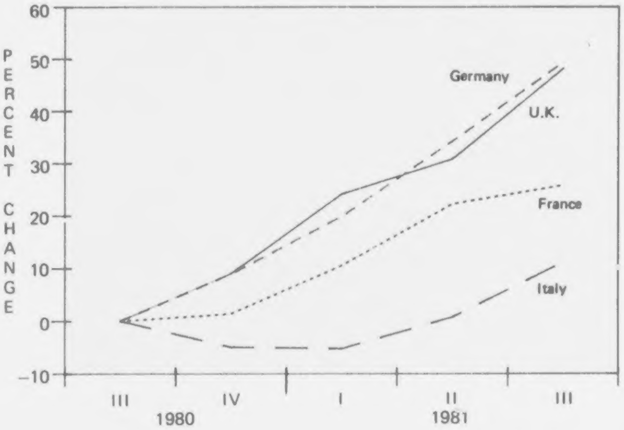
. . . Relief Is Far Away

Although the construction industry has now suffered for more than two years, its problems have intensified in the past seven months. During this period more than 150,000 construction workers lost their jobs and many builders filed for bankruptcy as new-home construction collapsed by more than 35 per cent to a seasonally adjusted 857,000 units at an annual rate in October—the lowest level in 15 years. Single-family home construction was hit the hardest. In this category, home starts declined by almost 25 per cent in October, month-over-month, to a post-war low of 487,000 units at an annual rate.

Adding further to the gloomy condition of the housing industry is the current oversupply of already-built, unsold new single-family homes around the country. At the current sales rate they represent 12.3 months of supply, which with only one exception, is the highest inventory on record. Not surprisingly, with builders experiencing significant difficulties selling homes already on the market, new building permits for future construction declined by 14 per cent in October, compared with September. What is more, a significant rebound in new home construction is not expected for quite some time, even after this stock is reduced. Learning from the 1981 experience, it seems that builders and developers will have to be convinced that there is a sustained recovery in home purchases before they start building again.

One area surviving the housing slump—albeit barely—is the home remodeling sector. While housing starts dropped by 37 per cent during the six months

TOTAL UNEMPLOYED IN SELECTED OECD COUNTRIES
PERCENT CHANGE FROM 3RD QUARTER, 1980



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ending in June, spending on additions and alterations of residential structures has remained relatively stable. Apparently, high interest rates have had less of an adverse impact on this market, since the amount of financing needed for home improvement is much less than that required when purchasing a home. Furthermore, many homeowners, unable to sell their present dwellings, have turned to renovating them, instead, while others, who could not trade up to new and larger homes, have added rooms.

Unemployment And Inflation Overseas . . .

The wide publicity given to the sharp rise in U.S. unemployment in October is a potent reminder that it is a widespread phenomenon in many developed countries, particularly in Europe. In the OECD member countries of Europe, the average rate of unemployment for 1981 will be about 8½ per cent and could well rise to an average of 9¼ per cent in 1982. The experiences of four European countries are illustrative of the policy responses to high unemployment.

In the United Kingdom, there were almost three million unemployed in October of this year, 12.4 per cent of the labor force (see chart on first page). This is the highest number of unemployed in about 50 years—since the Great Depression. In France, some 1.8 million workers were out of work in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/18/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.795	+ 2.623	+ 5.750
Loans to Depository Inst.	.561	− .404	− 1.418
Float	3.428	+ .534	− 1.686
Total Reserve Bank Credit	149.314	+ 3.111	+ 6.666
Treasury Deposits with Federal Reserve Banks	3.215	+ .163	− .253
Currency Outside Banks	126.127	+ 1.535	+ 5.251
Member Bank Reserves:			
Required	40.966	+ 1.329	+ .949
Excess (Deficiency)	.202	− .225	− .302
Total Reserves Held	41.168	+ 1.104	+ .647
Net Borrowed Reserves	.257	− .151	− 1.122
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.959	+ 2.800	+ 6.210

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	435.6	+ 2.1‡	+ 3.6‡
M2 (October '81)	1,800.4	+ 9.2	+ 8.9
M3 (October '81)	2,144.2	+ 9.6	+ 11.2
L (July '81)	2,519.4	+ 10.0	+ 11.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 11/27/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.90%	10.15%	10.15%
* Federal Agencies	10.80	11.05	11.50
* Project Notes—Taxfree (46% Taxable Equivalent)	12.04	12.13	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.30	11.60	12.25

‡ Finance Company Paper—Prime	
5- 14 days	11.25%
15- 29 days	11.25
30- 59 days	11.00
60- 89 days	10.88
90-179 days	10.75
180-239 days	10.50
240-270 days	10.50

‡* Bankers' Acceptances	
Dec.	10.95%
Jan.	10.85
Feb.	10.85
Mar.	10.85
Apr.	10.95
May	10.95

‡ Industrial Paper—Prime	
30- 89 days	11.00%
90-120 days	11.00

† Federal Funds Effective Rate 12.30%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,957	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,513	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	0.6	− 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Oct '81n	4.8%	14.4%	12.0%
Change in Producer Prices*	Oct '81	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons) †	Oct '81	98,217	98,270	97,206
Unemployment as % of Civilian Labor Force †	Oct '81	8.0%	7.5%	7.6%
Personal Income*	Oct '81	$ 2,477	$ 2,462	$ 2,234
Leading Indicators Composite Index (1967=100) †	Sept '81	130.1	133.7	134.4
Industrial Production Index (1967=100) †	Oct '81	149.5	151.8	146.6
Net Change in Consumer Installment Credit †	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Sept '81	−$ 1.57	−$ 4.48	−$ 1.11
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Oct '31	857	920	1,519
New Construction Expenditures*	Sept '81	$ 231.6	$ 232.6	$ 224.6
Total Business Inventories†	Sept '81	$ 507.2	$ 502.5	$ 471.5
Total Business Sales †	Sept '81	$ 354.2	$ 352.8	$ 327.8

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n Newly reported figure.

a-Anticipated.

September, about 8.5 per cent of the work force, and in West Germany 1.4 million workers (6.1 per cent of the work force) were idle in the same month. In Italy, some two million workers (8.8 per cent of the work force) were without jobs in the third quarter. In these latter three countries, the number of unemployed is the highest in more than a decade. Further, unemployment has reached a point in each of these economies where it is challenging inflation as the principal problem facing government policymakers.

In the United Kingdom, the government tenaciously pursues anti-inflationary policies in spite of growing opposition within and outside of Mrs. Thatcher's own party. In France, President Mitterrand has begun to follow policies which place boosting employment above reducing inflation as the major goal of his economic program. In West Germany, the government still maintains a cautious monetary policy which balances a loosening of monetary restraints to stimulate growth and employment on the one hand, against a possible resurgence of inflationary pressures on the other. The Bank of Italy has been maintaining a tight grip on monetary policy and, at the same time, has tried to improve its control over the means by which monetary policy is applied.

In the face of high interest rates and sluggish

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/11/81)	128,040	− 65	+25,292
New York City (11/11/81)	30,972	− 605	+ 5,544
Commercial Paper (11/11/81)	166,230	+ 2,268	+40,992

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/11/81)	188,868	− 856	+18,882
New York City (11/11/81)	54,885	− 270	+ 5,053

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/11/81)	460,104	− 327	+40,542
New York City (11/11/81)	109,851	+ 282	+12,808

Financial Markets

	Friday 11/27/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.46%	+ .11	− 4.68
180-Day Bills†	11.18	− .11	− 4.24
Longest Bills†	11.20	− .35	− 3.70
Recent Issues:			
$12^{1}/_{8}$s 11/30/83 (When Issued)	12.05	− .07	
$15^{7}/_{8}$s 9/30/85	12.81	+ .06	
$14^{1}/_{4}$s 11/15/91	12.82	− .03	
14s 11/15/11	12.66	− .24	
Municipals:			
Bond Buyer–20 Bond Index* (11/25/81)	11.98%	+ .27	+ 2.36
Blue List Total ($ Million)	$1,158	+$ 171	+ $ 282
30-Day Visible Supply ($ Million)	$2,471	+$ 254	+ $ 457
Total	$3,629	+$ 425	+ $ 739
Corporates:			
Moody's Aa Composite (11/24/81)	13.96%	− .74	+ .56
30-Day Visible Supply ($ Million)	$8,683	+$1,185	+ $4,265
Stocks:			
Dow-Jones Averages:			
Industrials	885.94	+ 33.01	− 107.40
Transportation	389.61	+ 11.29	− 36.07
Utilities	112.84	+ 1.42	− 4.10
65 Stocks	354.71	+ 10.82	− 34.16
Standard and Poor's 500 Stocks	125.71	+ 4.00	− 14.43
N.Y.S.E. Composite Index	72.71	+ 1.72	− 8.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,500	− 106	− 5,772

* 46% Taxable equivalent 22.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/27/81	Week Ago
Overnight	11.75%	12.38%
1 month	11.69	12.44
3 month	11.94	12.75
6 month	12.75	13.06
1 year	13.13	13.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.00%	14.00%
Long Term (7 to 15 yrs.)	14.70	14.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/27/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02674	37.40
Canada	.8489	1.1780
Denmark	.1395	7.1708
France	.1783	5.6095
Germany	.4495	2.2249
Italy	.0008382	1193.00
Japan	.004625	216.20
Mexico	.03871	25.83
Netherlands	.4107	2.4350
Switzerland	.5607	1.7835
U.K.	1.9430	.5147

growth, the prospects for a rapid reduction in unemployment in Europe are not bright. Even exports, which have seen some improvement recently, particularly for the Germans, are not sufficient to sustain employment in the face of the widespread economic softness in Europe.

. . . Complicate Policymaking

In addition to the damage wrought by unemployment, there are other effects as well. High unemployment reduces governments' revenues—not only in the wages and income taxes lost, but in consumption and other taxes foregone as well. This reduces the income side of the governments' finance equation. Rising unemployment also requires additional social welfare payments, increasing the spending side of the governments' budgets, raising government deficits and adding to the imbalance between income and expenditures.

In the face of declining revenues, these governments have been forced to increase their borrowing in the credit markets to meet their needs. This, in turn, could lead in the short run to higher interest rates as more government borrowing competes with private credit demand, further depressing economic activity. In the longer run, increased government borrowing could result in a rise in taxes to repay the deficits (also depressing economic activity) or, if the debt is monetized, increased inflationary pressures. In the cases of the United Kingdom, Italy, France and West Germany, already high government budget deficits and government borrowing have risen still further and are expected to continue to rise in the near future.

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Financial
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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 7, 1981

VOLUME XVIII, NUMBER 49

Wage Rises For Organized Labor . . .

After a year of light bargaining activity, more than 40 per cent of organized labor will be negotiating new contracts in 1982. Ordinarily such a development would presage a year of sharply rising labor costs and frequent strikes as workers attempt to recoup lost purchasing power due to inflation. However, the current downturn in economic activity in general and the dismal condition of many industries in particular are expected to curtail labor's demands. A substantial moderation in wage demands to single-digit rates may well occur, while the incidence of strikes is expected to decline.

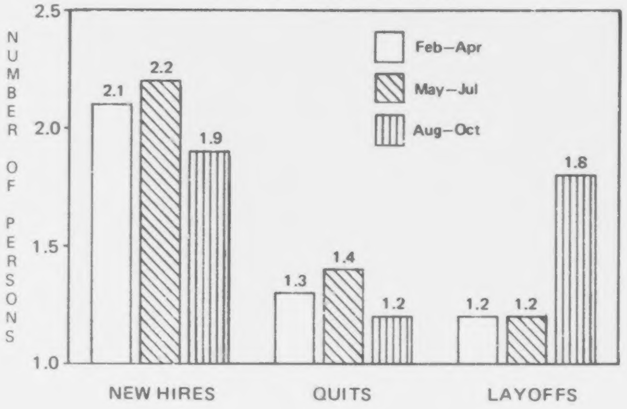
Until now, wage negotiations have focused primarily on the rate of inflation, excluding such market forces as industry or individual company profitability, productivity and competition from less expensive imports. This has been especially true in the auto, steel, rubber and apparel industries. However, in 1982 many companies will be asking their employees to look at these market forces when their contracts come up for renegotiation. In doing so, some will offer raises below the rate of inflation, while others will ask labor to actually give back some previously won wage increases, fringe benefits and work-rule improvements. The alternatives, they may argue, would be massive layoffs or complete plant shutdowns.

In the private nonfinancial sector, while productivity grew at an average rate of 0.3 per cent per annum during the three years ending in 1980, compensation per hour jumped by 9.3 per cent and total compensation advanced by 12 per cent per year. As a result, these wage gains translated into an average annual increase of nine per cent in unit labor costs. This was one of the reasons why many of our products were priced out of the market. It also contributed to the sharp rise in the rate of inflation.

. . . Will Slow In 1982 . . .

Because of the protracted slump in economic activity, labor has already become more receptive to management's initial proposals than in previous years. This year's strike activity was the lowest in ten years. In October, for example, idleness due to worker walkouts as a per cent of estimated available working time fell to 0.06 per cent (less than one idle day per one thousand), which was the lowest rate for any October since World War II. The number of days lost was low despite the strike by almost 12,000 air-traffic controllers and two other major unions involving about 30,000 workers. These three walkouts alone were responsible for 55 per cent of all idle days in October and represented almost one-half of all striking workers.

LABOR TURNOVER IN MANUFACTURING:
AVERAGE NUMBER OF NEW HIRES, QUITS AND LAYOFFS
PER 100 EMPLOYEES IN 1981



As unemployment worsened, people began to place more emphasis on job security. The quit rate by employees, which indicates labor's perception of other job opportunities, showed that labor has become more pessimistic in the past three months (see chart) than during the preceding six months. In fact in October, the quit rate dropped to 1.1 employees per 100—the lowest rate in 20 years. Meanwhile, layoffs surged in October, especially in the manufacturing sector. About 2.3 workers per 100 lost their jobs compared with 1.7 a month earlier and only one per 100 in July.

. . . As Employment Prospects Worsen . . .

Ominously, the number of unemployed rose to nine million in November, which was the highest number in over 40 years. It represented 8.4 per cent of the labor force, and there are indications that it will climb even higher in early 1982. What is more,

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almost five million people were forced to work part-time for economic reasons, as their full-time work schedule was cut, or they could not find full-time jobs.

During the first nine months of this year, major collective bargaining settlements reached in private industry provided wage adjustments averaging 11.5 per cent for the first year of contract—the largest increase in ten years. In addition, 21 per cent of these workers will receive cost-of-living adjustments during the life of their contracts, averaging slightly under three years.

However, a large part of this sharp gain was a result of wage increases received only in one industry. Almost 40 per cent of all settlements covered workers in the construction sector, who received wage adjustments averaging 13.9 per cent, compared with a 10.1 per cent gain in other industries. Most of these construction workers were not involved in building single-family homes but rather in multi-unit and nonresidential construction, including such public works as highways, sewers and water projects.

In manufacturing, the total effective gain in wages which includes settlements, deferred increases negotiated in earlier periods and cost-of-living adjustments has actually slipped so far this year compared with last year. During the first nine

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/25/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	135.444	+ .649	+ 5.211
Loans to Depository Inst.	.337	– .224	– 1.878
Float	3.327	– .096	+ .118
Total Reserve Bank Credit	149.153	– .147	+ 7.030
Treasury Deposits with Federal Reserve Banks	2.841	– .374	– .105
Currency Outside Banks	126.629	+ .528	+ 5.664
Member Bank Reserves:			
Required	40.753	– .213	+ .758
Excess (Deficiency)	.060	– .134	– .257
Total Reserves Held	40.813	– .347	+ .501
Net Borrowed Reserves	.208	– .057	– 1.575
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.999	– .960	+ 3.763

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	436.4	+ 2.5‡	+ 3.8‡
M2 (October '81)	1,798.9	+ 8.8	+ 8.8
M3 (October '81)	2,143.5	+ 9.5	+ 11.2
L (July '81)	2,519.4	+ 10.0	+ 11.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 12/4/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.00%	10.26%	10.24%
* Federal Agencies	10.00	11.10	11.35
* Project Notes–Taxfree (46% Taxable Equivalent)	11.85	12.04	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	11.30	11.63	12.63

‡ Finance Company Paper–Prime	
5- 14 days	11.00%
15- 29 days	11.00
30- 59 days	11.38
60- 89 days	11.13
90-179 days	10.75
180-239 days	10.00
240-270 days	10.00

‡* Bankers' Acceptances	
Jan.	11.00%
Feb.	11.00
Mar.	11.00
Apr.	11.00
May	11.00
Jun.	11.00

‡ Industrial Paper–Prime	
30- 89 days	11.30%
90-120 days	11.00

† Federal Funds Effective Rate 11.65%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,957	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,513	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	0.6	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Oct '81	4.8%	14.4%	12.0%
Change in Producer Prices*	Oct '81	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons) †	Nov '81n	98,025	98,217	97,339
Unemployment as % of Civilian Labor Force †	Nov '81n	8.4%	8.0%	7.5%
Personal Income*	Oct '81	$ 2,477	$ 2,462	$ 2,234
Leading Indicators Composite Index (1967=100) †	Oct '81n	128.1	130.4	135.0
Industrial Production Index (1967=100) †	Oct '81	149.5	151.8	146.6
Net Change in Consumer Installment Credit †	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Oct '81n	–$ 4.19	–$ 1.57	–$ 1.13
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Oct '81	857	920	1,519
New Construction Expenditures*	Oct '81n	$ 230.8	$ 234.7	$ 228.9
Total Business Inventories †	Sept '81	$ 507.2	$ 502.5	$ 471.5
Total Business Sales †	Sept '81	$ 354.2	$ 352.8	$ 327.8

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

months of 1981, wage increases totaled about eight per cent at an annual rate, down more than two percentage points from 1980. In the nonmanufacturing sector, excluding construction, effective wage rate adjustments also slowed, rising by one-tenth of one per cent less than they did a year ago.

. . . And Many Industries Suffer

Many contracts expiring next year will involve some of the country's weakest industries. One of the most important discussions will take place between the automobile manufacturers and more than one million United Auto Workers. Because the domestic auto industry finds itself in one of the worst slumps ever, with imports continuing to increase their market share, it may not be able to give much to its workers. While numerous concessions by workers have been already given at all three of the major companies, more will be sought, in order to increase domestic cars' competitiveness with imports.

As a result of the sluggish pace of economic activity, the need for truckers has declined and truck tonnage hauled has been recently running below year-earlier levels. Furthermore, some trucking companies' problems have been exacerbated by the deregulation of the industry and substantial competition from nonunionized truckers. As a consequence of these adverse factors, union leaders have already begun

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/18/81)	129,278	+ 1,257	+24,587
New York City (11/18/81)	31,169	+ 197	+ 5,159
Commercial Paper (11/18/81)	167,640	+ 1,410	+43,135

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/81)	189,678	+ 799	+19,832
New York City (11/18/81)	55,003	+ 118	+ 5,248

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/18/81)	461,585	+ 1,396	+42,415
New York City (11/18/81)	109,281	− 570	+11,503

Financial Markets

	Friday 12/4/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.32%	− .14	− 6.28
180-Day Bills†	10.93	− .19	− 5.01
Longest Bills†	11.53	+ .33	− 3.57
Recent Issues:			
12⅛s 11/30/83	12.13	+ .08	
15⅞s 9/30/85	13.08	+ .27	
14¼s 11/15/91	13.10	+ .28	
14s 11/15/11	12.89	+ .23	
Municipals:			
Bond Buyer–20 Bond Index* (12/3/81)	12.18%	+ .20	+ 2.34
Blue List Total ($ Million)	$ 1,251	+$ 93	+ $ 187
30-Day Visible Supply ($ Million)	$ 2,169	−$ 302	− $ 233
Total	$ 3,420	−$ 209	− $ 46
Corporates:			
Moody's Aa Composite (12/3/81)	14.68%	+ .72	+ 1.05
30-Day Visible Supply ($ Million)	$10,627	+$1,944	+ $6,689
Stocks:			
Dow-Jones Averages:			
Industrials	892.69	+ 6.75	− 63.54
Transportation	395.03	+ 5.42	− 3.25
Utilities	112.92	+ .08	− 1.32
65 Stocks	357.73	+ 3.02	− 14.05
Standard and Poor's 500 Stocks	126.26	+ .55	− 7.77
N.Y.S.E. Composite Index	73.24	+ .53	− 3.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,042	+ 1,542	+ 8,460

* 46% Taxable equivalent 22.56%.

† Bond equivalent.

International Rates

	Friday 12/4/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.75%	11.75%
1 month	12.38	11.69
3 month	12.50	11.94
6 month	12.81	12.75
1 year	13.38	13.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.25%	14.00%
Long Term (7 to 15 yrs.)	14.90	14.70

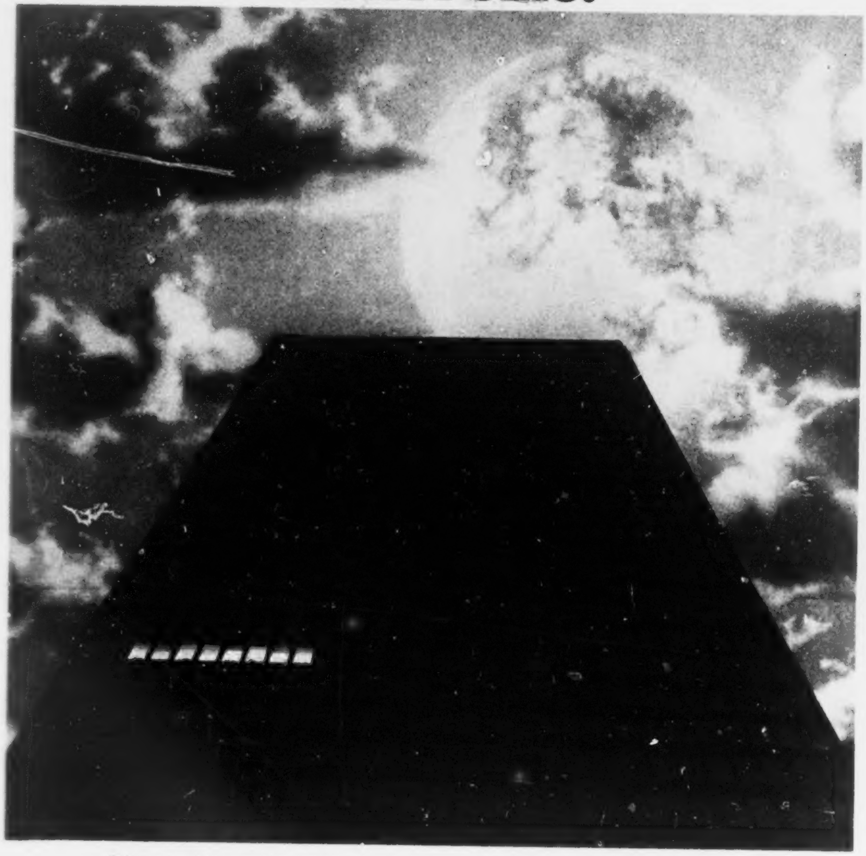
FOREIGN EXCHANGE SPOT RATES

New York Opening (12/4/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02646	37.80
Canada	.8485	1.1785
Denmark	.1394	7.1723
France	.1784	5.6045
Germany	.4500	2.2220
Italy	.0008388	1192.20
Japan	.004629	216.03
Mexico	.03861	25.90
Netherlands	.4114	2.4310
Switzerland	.5608	1.7833
U.K.	1.9505	.5127

preliminary discussions with company representatives, although their contract does not expire for another four months.

Similarly, construction workers will not be in a position to make high demands. Almost 18 per cent are currently unemployed and the housing slump does not show any signs of a significant turnaround in the near future. Finally, the rubber workers, whose contract expires next April, have already made numerous concessions in the past year at many plants. They were in the form of wage cuts, benefit reductions, deferment or elimination of cost-of-living adjustments, cuts in night shift differentials and elimination of overtime for weekend work, among others, to keep plants in operation. Although the industry's profitability has improved recently it is still adversely affected by the high cost of raw materials—most importantly petroleum—and a slide in demand by the auto industry. Additionally, the trend to smaller cars and less driving has reduced the need for replacement tires. H

THE
MOONLIGHTING
PORTFOLIO.



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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 14, 1981

VOLUME XVIII, NUMBER 50

For Corporate Profits . . .

One of the more significant problems affecting the credit markets has been the lackluster growth of corporate earnings. The inability of U.S. corporations to generate strong earnings growth in light of the twin challenges of slumping productivity and escalating costs almost ensures that internally generated funds will continue to fall far short of capital requirements. And when you consider that the quality of after-tax earnings has exhibited little improvement, as corporations continue to post sizable gains in inventory profits and run inadequate depreciation allowances, a rather sizable financing gap emerges which must be bridged by external borrowings.

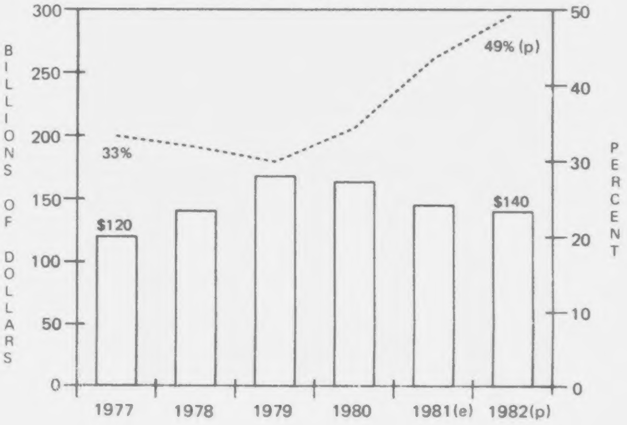
In the third quarter, before-tax book profits increased at a seasonally adjusted $1.9 billion annual rate, quarter-over-quarter, to $230.9 billion. This was an improvement compared with the extremely dismal second quarter performance. At that time, corporate earnings skidded at a $28 billion annual rate quarter-over-quarter, one of the steepest three-month slides ever. After-tax earnings also rebounded slightly, eking out an approximately $1 billion annual rate gain to $153.5 billion, following a more than $16 billion drop in the second quarter. Of this total, corporations reported retained earnings of about $89 billion, not far from the previous quarter's levels.

Unfortunately, what seems to be a better profits performance masks the still serious erosion of earnings quality due to inflation. The ongoing rise in prices, for example, continues to increase the value of inventories held in stock. As a result, inventory profits advanced at an almost $30 billion seasonally adjusted annual rate in the third quarter, a gain of about ten per cent compared with the prior quarter's levels—comprising about one-third of all retained earnings. To the extent that the proportion of retained earnings accounted for by temporary inventory profits increased during the quarter (from about 25 per cent in the second quarter), the quality of reported earnings, as opposed to their size, decreased.

. . . It's Worse Than You Think . . .

Nor are inventory profits the only factor distorting corporate earnings. Since depreciation schedules are based on historical rather than replacement costs, it is hardly surprising that capital consumption allowances fall far short of replacement costs during periods of rapid price inflation. This shortfall totaled more than $13 billion in the third quarter (expressed at a seasonally adjusted annual rate), equal to approximately 20 per cent of retained earnings. Adjusting retained earnings for both inventory profits and replacement cost depreciation reduces reported undistributed profits from $89 billion to less than $50 billion, an almost $40 billion—or 45 per cent—reduction.

AFTER-TAX CORPORATE PROFITS (BAR)
VS. DIVIDEND PAYOUT RATIO (DOT)



Despite this lackluster growth in earnings—not to mention their "soft" quality—dividend payments have surged to new record highs. Cash distributions probably reached almost $65 billion in 1981, $9 billion more than the year before and about $15 billion higher than in 1979—a year in which after-tax profits were about $20 billion greater than now. As a result, the dividend payout ratio, which compares dividends and after-tax corporate profits, should exceed 41 per cent in 1981, its highest level since 1971.

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What is more, if the economy continues to weaken, corporate earnings will once again diminish. And since corporations tend to be extremely reluctant to slash dividends, this development could push the dividend payout ratio to even loftier heights—placing a heavy strain on corporate balance sheets. Clearly, this would lead to greater credit demands in the months ahead.

. . . The Same For Capital Spending

Aside from the potential impact on the credit markets, the deterioration in corporate profits could affect business spending on new plant and equipment. Despite the investment incentives given to business by the Administration on October 1 as a part of its economic recovery program, many industries have begun to scale down their capital spending plans. Corporations, it seems, are responding more to the sluggish pace of economic activity. Most importantly, they are looking at the recent sharp declines in industrial production and capacity utilization, as opposed to the beneficial impact of the new tax policies.

A Conference Board survey of the nation's 1,000 largest manufacturers showed that capital appropriations—authorizations to spend money in the future which precede the actual ordering

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/2/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	135.471	+ .027	+ 7.368
Loans to Depository Inst.	.317	– .020	– 1.825
Float	4.032	+ .539	– 1.529
Total Reserve Bank Credit	150.120	+ .801	+ 7.563
Treasury Deposits with Federal Reserve Banks	3.028	+ .187	+ .183
Currency Outside Banks	126.441	– .188	+ 5.338
Member Bank Reserves:			
Required	41.230	+ .477	+ 1.320
Excess (Deficiency)	.218	– .008	– .663
Total Reserves Held	41.448	+ .469	+ .657
Net Borrowed Reserves	.058	+ .016	– 1.093
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.054	+ 2.055	+ 5.492
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1-B	439.9	+ 4.4‡	+ 4.2‡
M2 (November '81)	1,823.0	+ 10.3	+ 9.3
M3 (November '81)	2,165.6	+ 9.1	+ 11.0
L (August '81)	2,552.3	+ 11.6	+ 11.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 12/11/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.55%	11.25%	11.25%
* Federal Agencies	11.30	11.80	12.25
* Project Notes—Taxfree (46% Taxable Equivalent)	11.85	12.31	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	12.60	13.15	14.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	12.13%	Jan.	12.00%
15- 29 days	12.13	Feb.	12.00
30- 59 days	12.13	Mar.	12.20
60- 89 days	10.88	Apr.	12.30
90-179 days	10.88	May	12.30
180-239 days	10.88	Jun.	12.20
240-270 days	10.50		

‡Industrial Paper—Prime			
30- 89 days	11.88%	†Federal Funds	
90-120 days	11.88	Effective Rate	12.25%

‡Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,957	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,513	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	0.6	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Oct '81	4.8%	14.4%	12.0%
Change in Producer Prices*	Nov '81n	6.0%	7.2%	8.4%
Civilian Employment (Thousands of Persons)†	Nov '81	98,025	98,217	97,339
Unemployment as % of Civilian Labor Force†	Nov '81	8.4%	8.0%	7.5%
Personal Income*	Oct '81	$ 2,477	$ 2,462	$ 2,234
Leading Indicators Composite Index (1967=100)†	Oct '81	128.1	130.4	135.0
Industrial Production Index (1967=100)†	Oct '81	149.5	151.8	146.6
Net Change in Consumer Installment Credit†	Oct '81n	$ 1.01	$ 2.82	$ 0.70
U.S. Merchandise Trade Balance†	Oct '81	–$ 4.19	–$ 1.57	–$ 1.13
Plant and Equipment Expenditures*	1st Q'82n	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Oct '81	857	920	1,519
New Construction Expenditures*	Oct '81	$ 230.8	$ 234.7	$ 228.9
Total Business Inventories†	Sept '81	$ 507.2	$ 502.5	$ 471.5
Total Business Sales†	Sept '81	$ 354.2	$ 352.8	$ 327.8

*Seasonally adjusted annual rate.

†Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

of equipment or the negotiation of construction contracts—fell by 5.6 per cent in the third quarter from the previous quarter's level. This decline followed three consecutive quarterly increases. Not surprisingly, machine tool orders, a good advance indicator of investment trends, have dropped sharply. During the last three months, they plunged 16 per cent from the previous three-month average and are currently running 35 per cent below last year. Orders for nondefense capital goods in the last three months were 3.2 per cent below the previous three-month period, while private construction put in place (without adjusting for inflation) declined by about 1.5 per cent during the two months ending in October.

The Commerce Department has just confirmed that businessmen are trimming their plans to invest. According to its quarterly survey of capital spending outlays and plans, businessmen project their fourth-quarter 1981 outlays to be $332.06 billion, down from the $333.09 billion they expected six months ago. What is more, actual spending is likely to be even lower than currently projected, because of the sharp slide in economic activity since the survey was taken.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/25/81)	132,640	+ 3,296	+25,295
New York City (11/25/81)	33,134	+ 1,965	+ 6,297
Commercial Paper (11/25/81)	166,614	– 1,026	+42,529

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/25/81)	190,021	+ 383	+18,236
New York City (11/25/81)	55,032	+ 65	+ 4,614

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/25/81)	464,650	+ 3,086	+43,196
New York City (11/25/81)	111,921	+ 2,676	+13,855

Financial Markets

	Friday 12/11/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.20%	+ .88	– 6.25
180-Day Bills†	12.20	+ 1.21	– 4.54
Longest Bills†	12.60	+ 1.07	– 2.70
Recent Issues:			
12$^{1}/_{8}$s 11/30/83	13.25	+ 1.12	
15$^{7}/_{8}$s 9/30/85	14.00	+ .92	
14$^{1}/_{4}$s 11/15/91	13.75	+ .65	
14s 11/15/11	13.45	+ .56	
Municipals:			
Bond Buyer–20 Bond Index* (12/10/81)	12.89%	+ .71	+ 2.47
Blue List Total ($ Million)	$1,459	+ $208	+ $ 571
30-Day Visible Supply ($ Million)	$2,428	+ $259	– $ 493
Total	$3,887	+ $467	+ $ 78
Corporates:			
Moody's Aa Composite (12/10/81)	14.84%	+ .16	+ .59
30-Day Visible Supply ($ Million)	$9,257	–$1,370	+ $5,794
Stocks:			
Dow-Jones Averages:			
Industrials	886.51	– 6.18	– 30.64
Transportation	391.11	– 3.92	+ 9.87
Utilities	111.98	– .94	+ .51
65 Stocks	354.83	– 2.90	– 2.46
Standard and Poor's 500 Stocks	124.93	– 1.33	– 4.3
N.Y.S.E. Composite Index	72.43	– .81	– 1.73
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,788	– 3,254	– 9,713

* 46% Taxable equivalent 23.87%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/11/81	Week Ago
Overnight	12.13%	11.75%
1 month	13.19	12.38
3 month	13.50	12.50
6 month	14.00	12.81
1 year	14.25	13.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.55%	14.25%
Long Term (7 to 15 yrs.)	15.10	14.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/11/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02593	38.57
Canada	.8427	1.1867
Denmark	.1364	7.3303
France	.1746	5.7265
Germany	.4437	2.2540
Italy	.0008270	1209.20
Japan	.004575	218.60
Mexico	.03848	25.99
Netherlands	.4045	2.4720
Switzerland	.5425	1.8433
U.K.	1.8808	.5317

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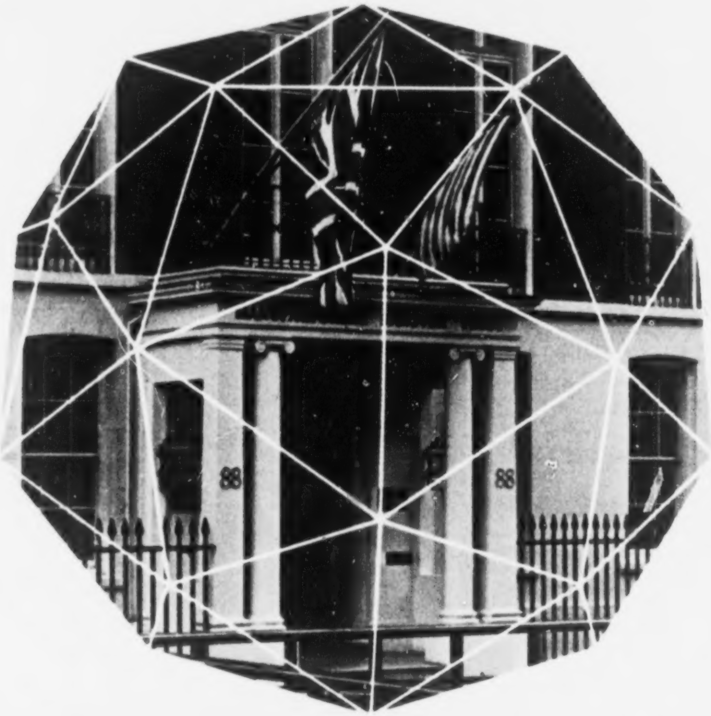

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 21, 1981
VOLUME XVIII, NUMBER 51

Season's Greetings

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

Selected Federal Reserve Data

(Averages of [illegible] ly Figures—Billions of Dollars)

	Week Ending 12/9/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Cre			
U.S. Gov'ts and Agencies Owned Outright & RPs	135.830	+ .359	+ 8.040
Loans to Depository Inst.	.618	+ .301	− 1.168
Float	2.840	− 1.490	− 1.642
Total Reserve Bank Credit	149.428	− .990	+ 8.173
Treasury Deposits with Federal Reserve Banks	2.666	− .362	+ .438
Currency Outside Banks	126.777	+ .339	+ 5.116
Member Bank Reserves:			
Required	40.608	− .622	+ 1.415
Excess (Deficiency)	.161	− .358	− .101
Total Reserves Held	40.769	− .980	+ 1.314
Net Borrowed Reserves	.427	+ .670	− .986
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.756	− .298	+ 4.865

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	440.6	+ 6.0‡	+ 4.7‡
M2 (November '81)	1,823.4	+ 10.4	+ 9.3
M3 (November '81)	2,165.6	+ 9.1	+ 11.0
L (August '81)	2,550.8	+ 11.4	+ 11.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/18/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.99%	11.54%	11.54%
* Federal Agencies	11.12	11.87	12.42
* Project Notes—Taxfree (46% Taxable Equivalent)	12.22	12.87	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	12.88	13.35	14.00

‡ Finance Company Paper—Prime	
5- 14 days	11.50%
15- 29 days	12.25
30- 59 days	12.25
60- 89 days	12.25
90-179 days	12.25
180-239 days	11.50
240-270 days	10.50

‡* Bankers' Acceptances	
Jan.	12.30%
Feb.	12.30
Mar.	12.40
Apr.	12.50
May	12.60
Jun.	12.50

‡ Industrial Paper—Prime	
30- 89 days	12.25%
90-120 days	12.25

† Federal Funds Effective Rate 12.20%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,965	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,516	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	1.4	− 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Oct '81	4.8%	14.4%	12.0%
Change in Producer Prices*	Nov '81	6.0%	7.2%	8.4%
Civilian Employment (Thousands of Persons) †	Nov '81	98,025	98,217	97,339
Unemployment as % of Civilian Labor Force †	Nov '81	8.4%	8.0%	7.5%
Personal Income*	Nov '81n	$ 2,489	$ 2,475	$ 2,258
Leading Indicators Composite Index (1967=100) †	Oct '81	128.1	130.4	135.0
Industrial Production Index (1967=100) †	Nov '81n	146.5	149.6	149.2
Net Change in Consumer Installment Credit †	Oct '81	$ 1.01	$ 2.82	$ 0.70
U.S. Merchandise Trade Balance †	Oct '81	−$ 4.19	−$ 1.57	−$ 1.13
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Nov '81n	871	864	1,550
New Construction Expenditures*	Oct '81	$ 230.8	$ 234.7	$ 228.9
Total Business Inventories †	Oct '81n	$ 513.0	$ 508.1	$ 473.6
Total Business Sales †	Oct '81n	$ 345.5	$ 353.7	$ 335.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/2/81)	131,773	– 867	+24,486
New York City (12/2/81)	34,226	+ 1,092	+ 7,571
Commercial Paper (12/2/81)	165,978	– 648	+40,283

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/2/81)	191,842	+ 1,900	+19,192
New York City (12/2/81)	55,670	+ 638	+ 4,565

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/2/81)	468,459	+ 4,275	+42,937
New York City (12/2/81)	113,316	+ 1,485	+13,559

Financial Markets

	Friday 12/18/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.26%	+ .06	– 4.36
180-Day Bills†	12.25	+ .05	– 3.23
Longest Bills†	12.66	+ .06	– 1.77
Recent Issues:			
13s 12/31/83 (When Issued)	13.10		
15⁷/₈s 9/30/85	13.42	– .58	
14¹/₄s 11/15/91	13.56	– .19	
14s 11/15/11	13.39	– .06	
Municipals:			
Bond Buyer–20 Bond Index* (12/17/81)	13.00%	+ .11	+ 2.44
Blue List Total ($ Million)	$1,253	– $206	+ $ 499
30-Day Visible Supply ($ Million)	$2,112	– $316	+ $1,050
Total	$3,365	– $522	+ $1,549
Corporates:			
Moody's Aa Composite (12/17/81)	15.10%	+ .26	+ 1.10
30-Day Visible Supply ($ Million)	$8,497	– $760	+ $5,134
Stocks:			
Dow-Jones Averages:			
Industrials	875.76	– 10.75	– 61.44
Transportation	390.35	– .76	– 1.68
Utilities	110.07	– 1.91	– 5.63
65 Stocks	351.38	– 3.45	– 15.32
Standard and Poor's 500 Stocks	124.00	– .93	– 9.7
N.Y.S.E. Composite Index	71.87	– .56	– 4.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,024	+ 236	– 4,524

* 46% Taxable equivalent 24.07%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/18/81	Week Ago
Overnight	12.25%	12.13%
1 month	13.25	13.19
3 month	13.69	13.50
6 month	14.63	14.00
1 year	14.50	14.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.55%	14.55%
Long Term (7 to 15 yrs.)	15.20	15.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/18/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02581	38.75
Canada	.8409	1.1892
Denmark	.1347	7.4225
France	.1723	5.8025
Germany	.4366	2.2903
Italy	.0008190	1221.00
Japan	.004557	219.45
Mexico	.03839	26.05
Netherlands	.3994	2.5035
Switzerland	.5463	1.8305
U.K.	1.8745	.5335

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Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 28, 1981 VOLUME XVIII, NUMBER 52

...and a HAPPY NEW YEAR to all!
1982

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Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

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Buon Anno Nuovo
Frohliches Neues Jahr
Bonne An

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 12/16/81	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	137.584	+ 1.754	+ 7.381
Loans to Depository Inst.	.398	− .220	− 1.107
Float	3.417	+ .567	− .804
Total Reserve Bank Credit	151.233	+ 1.795	+ 7.251
Treasury Deposits with Federal Reserve Banks	2.772	+ .106	− .012
Currency Outside Banks	127.151	+ .374	+ 5.146
Member Bank Reserves:			
Required	42.131	+ 1.523	+ 1.577
Excess (Deficiency)	−.049	− .220	− .551
Total Reserves Held	42.082	+ 1.303	+ 1.026
Net Borrowed Reserves	.377	− .040	− .502
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.596	+ 1.160	+ 3.369

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	440.6	+ 6.0‡	+ 4.7‡
M2 (November '81)	1,823.6	+ 10.4	+ 9.3
M3 (November '81)	2,165.8	+ 9.1	+ 11.0
L (September '81)	2,574.4	+ 11.4	+ 11.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/23/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.10%	12.05%	12.20%
* Federal Agencies	12.15	12.50	12.70
* Project Notes—Taxfree (46% Taxable Equivalent)	11.85	12.78	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.30	14.10	14.80

‡Finance Company Paper—Prime	
5- 14 days	12.25%
15- 29 days	12.75
30- 59 days	12.63
60- 89 days	11.50
90-179 days	11.50
180-239 days	11.75
240-270 days	11.00

‡* Bankers' Acceptances	
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Feb.	12.50
Mar.	12.65
Apr.	12.80
May	12.85
Jun.	12.80

‡Industrial Paper—Prime	
30- 89 days	12.50%
90-120 days	12.50

†Federal Funds Effective Rate 13.15%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
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Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,516	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	1.4	− 1.6	2.4
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Unemployment as % of Civilian Labor Force †	Nov '81	8.4%	8.0%	7.5%
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Total Business Inventories †	Oct '81	$ 513.0	$ 508.1	$ 473.6
Total Business Sales †	Oct '81	$ 345.5	$ 353.7	$ 335.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/9/81)	133,395	+ 1,635	+24,477
New York City (12/9/81)	34,249	+ 23	+ 7,592
Commercial Paper (12/9/81)	165,682	− 296	+42,211

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/9/81)	191,876	+ 1	+18,730
New York City (12/9/81)	55,126	− 544	+ 3,346

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/9/81)	464,689	− 3,776	+38,019
New York City (12/9/81)	110,480	− 2,864	+10,030

Financial Markets

	Wednesday 12/23/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.73%	+ .42	− 3.52
180-Day Bills†	13.16	+ .96	− 1.87
Longest Bill†	13.72	+ 1.05	− .12
Recent Issues:			
13s 12/31/83 (When Issued)	13.40	+ .30	
14 1/8s 12/31/85 (When Issued)	13.65	NA	
14 1/4s 11/15/91	13.55	− .01	
14s 11/15/11	13.30	− .09	
Municipals:			
Bond Buyer—20 Bond Index	13.17%	+ .17	+ 3.18
Blue List Total ($ Million)	$1,261	+ $ 8	+ $ 699
30-Day Visible Supply ($ Million)	$1,882	− $230	+ $1,017
Total	$3,143	− $222	+ $1,716
Corporates:			
Moody's Aa Composite (12/22/81)	15.26%	+ .24	+ 1.10
30-Day Visible Supply ($ Million)	$8,612	+ $ 35	+ $5,099
Stocks:			
Dow-Jones Averages:			
Industrials	869.67	+ .95	− 93.38
Transportation	380.58	− 4.06	− 16.18
Utilities	109.59	+ .60	− 7.28
65 Stocks	347.04	− .67	− 27.00
Standard and Poor's 500 Stocks	122.31	− .81	− 12.99
N.Y.S.E. Composite Index	70.96	− .41	− 6.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,284	+ 3,462	− 3,124

* 46% Taxable equivalent 24.39%.

† Bond equivalent.

International Rates

	Wednesday 12/23/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	12.63%	12.25%
1 month	13.69	13.25
3 month	14.13	13.69
6 month	15.19	14.63
1 year	14.75	14.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	14.55%
Long Term (7 to 15 yrs.)	15.10	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/23/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02606	38.38
Canada	.8465	1.1814
Denmark	.1351	7.4025
France	.1738	5.7550
Germany	.4399	2.2730
Italy	.0008256	1211.20
Japan	.004546	219.95
Mexico	.03833	26.09
Netherlands	.4004	2.4975
Switzerland	.5520	1.8115
U.K.	1.8955	.5276

MHT LANDS IN NEW TERRITORY.

MANUFACTURERS
HANOVER
CASUALTY INSURANCE
PROGRAM

Introducing a new package of protection for correspondents from Manufacturers Hanover. Leave it to America's premier "banker's bank" to pull the cord on casualty insurance costs.

We analyzed the needs of banks and the plans available. Out of our study has come a program uniquely able to protect banks—their officers and employees—against modern-day risks. From stockholder lawsuits to extortion, from employee errors to employee dishonesty.

One primary benefit of the MHT program is flexibility. You can buy the total package of coverages, choose any combination of two or more, or even opt for only one. The policies available are: Bankers Blanket Bond, Directors and Officers Liability, Trust Department Errors and Omissions, Employee Benefit Plans Liability, Extortion and Kidnap/Ransom, and Commercial Umbrella Liability. No more worries about dangerous coverage gaps or costly overlaps.

Another plus of going through MHT is that your local broker can work with our managing broker when renewing or adding coverages. And best of all, MHT offers you the economies of group participation.

Find out all about the new MHT Casualty Insurance Program. Write or call Charles R. Burrows, Vice President. His number is (212) 350-3359.

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MONDAY, JANUARY 4, 1982
VOLUME XIX, NUMBER 1

For Interest Rates, The Impact Of Recession . . .

Despite continuing evidence of a deep recession, a further moderation of rates of inflation and some abatement of short-term business credit demands, interest rates have begun to move higher. With the financial markets now focusing on the possibility of a renewed acceleration of money supply growth, as well as the extremely dismal Federal budget outlook, autumn's money and bond market rallies sputtered as winter appeared. During the four weeks ending December 23, for example, some short-term interest rates increased by as much as 125 basis points, while top-quality corporate bond yields rose up to 55 basis points. But with the economy remaining weak and the growth of short-term business credit demands expected to slow further due to both seasonal and cyclical factors, additional interest rate declines in early 1982 are likely.

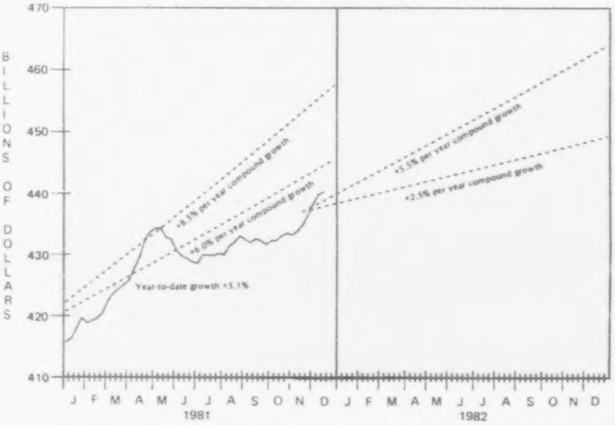
One of the major prerequisites for such declines is, however, a flattened pace of private sector economic activity. With the Federal Reserve no longer pegging interest rates rigorously and with Federal government borrowings absorbing an ever-larger proportion of net national savings (Economic Report—November, 1981), any recovery in private credit demands will simply collide with Federal requirements—and push interest rates higher. At the moment, this does not appear likely, for there is little doubt that the pace of economic activity contracted sharply in the fourth quarter, and will remain weak in the current quarter. Among the more recent indicators of the continuing slump into which the economy has fallen was the fourth consecutive monthly decline in the index of leading economic indicators in November, the very weak pace of new automobile sales, the free-fall in the number of housing starts and a pervasive weakness in such areas as industrial production, factory orders and export prospects.

Undoubtedly, this slide in economic activity has been the major factor buoying the financial markets, reducing private credit demands as well as prompting lower rates of inflation. And since the shape of the downturn that has emerged is quite traditional in scope—with across-the-board effects on a variety of industries and regions, together with increases in the unemployment rate in most sectors of the economy—a longer decline than occurred in 1980 appears likely. What is more, with little evidence of any near-term strength in the economy (except for the defense and defense-related sectors), further sharp cutbacks in employment, inventories and capital outlays are likely. This, in turn, should keep private sector credit demands restrained, at least through the first quarter of 1982.

. . . Gives Way To Money Supply Fears . . .

In the interim, however, fears of a renewed surge in money supply growth have affected negatively the financial markets. The growth of the monetary aggregates M1-B and M2 increased sharply in November, with both expanding at seasonally adjusted double-digit annual rates. As a result, while the year-to-date growth of M1-B still lies below its lower growth target boundary for 1981, M2 is now above its upper target boundary. This suggests that the Federal Reserve will adopt a somewhat more

MONEY SUPPLY, M1-B
FOUR-WEEK MOVING AVERAGE



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cautious monetary policy posture in coming weeks.

Interestingly, the acceleration in money growth in November and early December comes at an inopportune time. Since the Federal Reserve's money supply growth targets are calculated from the fourth quarter average of the series in one year to the fourth quarter average of the following year, a bulge in the money supply late in December could leave the level of the targeted aggregate at year-end exceeding its fourth quarter average by a wide margin. And, as shown in the chart on page 1, if M1-B growth in December equals that of November and the Federal Reserve does indeed scale back its 1982 growth targets for M1 to 2½–5½ per cent, the Federal Reserve will find itself in the peculiar position of undershooting its 1981 lower growth target (the October-December average) while at the same time already exceeding its 1982 upper growth target boundary. What this implies is that in the absence of any change in either the targets or the starting point, recent money supply developments could signal further restraint at a time when economic conditions would suggest some ease. Of course, the targets for 1982 are preliminary and subject to change; they, together with the definition of M1 as well as the starting point for allowable

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(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/23/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.831	+ 1.247	+10.745
Loans to Depository Inst.	.621	+ .223	– 1.028
Float	4.018	+ .490	– 2.020
Total Reserve Bank Credit	153.396	+ 2.052	+ 9.223
Treasury Deposits with Federal Reserve Banks	3.215	+ .443	+ .928
Currency Outside Banks	128.932	+ 1.781	+ 6.017
Member Bank Reserves:			
Required	41.721	– .410	+ 1.692
Excess (Deficiency)	.377	+ .315	– .432
Total Reserves Held	42.098	– .095	+ 1.260
Net Borrowed Reserves	.174	– .097	– .547
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.347	+ 1.751	+ 3.384

		% Change Since	
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M3 (November '81)	2,168.3	+ 9.6	+ 11.1
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† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/30/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	11.25%	12.10%	12.05%
* Federal Agencies	12.30	12.85	13.25
* Project Notes–Taxfree (46% Taxable Equivalent)	12.50	12.96	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.00	13.75	14.75

‡ Finance Company Paper–Prime	
5- 14 days	12.50%
15- 29 days	12.50
30- 59 days	12.63
60- 89 days	12.63
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240-270 days	11.25

‡* Bankers' Acceptances	
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‡ Industrial Paper–Prime	
30- 89 days	12.50%
90-120 days	12.63

† Federal Funds Effective Rate 12.95%

‡ Discount basis. * Subject to availability. † Estimated.

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(All Dollar Figures in Billions)

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Net Change in Consumer Installment Credit †	Oct '81	$ 1.01	$ 2.82	$ 0.70
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Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Nov '81	871	864	1,550
New Construction Expenditures*	Oct '81	$ 230.8	$ 234.7	$ 228.9
Total Business Inventories †	Oct '81	$ 513.0	$ 508.1	$ 473.6
Total Business Sales †	Oct '81	$ 345.5	$ 353.7	$ 335.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

growth in 1982 could all be changed in the very near future.

. . . And a Huge Federal Deficit

Also dominating financial market developments has been the Federal budget, or, more appropriately, the Federal budget deficit. It now appears that the fiscal 1982 "recession" deficit could exceed $100 billion in the absence of any additional spending cuts and/or tax increases and, to this total, must be added the outlays of the off-budget agencies, principally the Federal Financing Bank. These outlays could reach $25 billion in fiscal 1982—yielding an enlarged Federal deficit of more than $125 billion. This compares with an enlarged deficit of less than $80 billion in fiscal 1981 (which itself was a new record) implying that a revival of private sector credit demands in 1982 will collide head-on with both the ever-expanding public sector borrowing requirement and monetary policy restraint.

Against this backdrop, those much heralded interest rate declines in early 1982 will probably have to be prompted more by weakening demand factors rather than supply-side actions by the Fed. One of the most important of these is the growth of short-term business credit demands. While these demands have moderated somewhat in recent weeks in line with

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/16/81)	134,966	+ 1,624	+23,765
New York City (12/16/81)	34,577	+ 328	+ 7,120
Commercial Paper (12/16/81)	165,952	+ 270	+43,895

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/16/81)	193,593	+ 1,717	+19,190
New York City (12/16/81)	55,086	− 40	+ 3,222

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/16/81)	469,596	+ 4,907	+40,697
New York City (12/16/81)	111,533	+ 1,053	+ 9,972

Financial Markets

	Wednesday 12/30/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.70%	− .03	− 3.34
180-Day Bills†	13.12	− .04	− 1.85
Longest Bills†	13.55	− .17	− .29
Recent Issues:			
13s 12/31/83 (When Issued)	13.94	+ .54	
$14\frac{1}{8}$s 12/31/85 (When Issued)	13.74	+ .09	
$14\frac{1}{4}$s 11/15/91	14.04	+ .49	
14s 11/15/11	13.48	+ .18	
Municipals:			
Bond Buyer—20 Bond index	13.30%	+ .13	+ 3.54
Blue List Total ($ Million)	$1,222	− $ 39	+ $ 660
30-Day Visible Supply ($ Million)	$1,787	− $ 95	+ $ 922
Total	$3,009	− $134	+ $1,582
Corporates:			
Moody's Aa Composite (12/29/81)	15.35%	+ .09	+ 1.79
30-Day Visible Supply ($ Million)	$8,937	+ $325	+ $5,400
Stocks:			
Dow-Jones Averages:			
Industrials	873.10	+ 3.43	− 90.89
Transportation	378.44	− 2.14	− 19.66
Utilities	109.34	− .25	− 5.08
65 Stocks	347.02	− .02	− 26.42
Standard and Poor's 500 Stocks	122.30	− .01	− 13.46
N.Y.S.E. Composite Index	70.90	− .06	− 6.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	32,693	−15,591	− 595

* 46% Taxable equivalent 24.63%.

† Bond equivalent.

International Rates

	Wednesday 12/30/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.00%	12.63%
1 month	13.38	13.69
3 month	13.88	14.13
6 month	14.88	15.19
1 year	14.88	14.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.65%	14.60%
Long Term (7 to 15 yrs.)	15.10	15.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/30/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02603	38.41
Canada	.8446	1.1840
Denmark	.1355	7.3775
France	.1744	5.7325
Germany	.4412	2.2665
Italy	.0008278	1208.00
Japan	.004552	219.70
Mexico	.03807	26.27
Netherlands	.4013	2.4920
Switzerland	.5539	1.8055
U.K.	1.9010	.5260

the weakening pace of economic activity, the largest declines may be yet to come, as corporations trim further production, inventories and employment. What is more, as businesses step up their refunding of short-term debt in the long-term bond markets, further downward pressures on short-term rates will appear.

In addition, seasonal factors should help prompt weaker credit demands and interest rates over the next few weeks, since short-term business loan demand usually fades in the early part of a new year. During the past ten years, commercial and industrial loans outstanding have declined slightly on average between December and the middle of February, indicating that a combination of seasonal and cyclical factors could offset the impact of any hesitancy on the part of the Fed to loosen the credit reins further.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

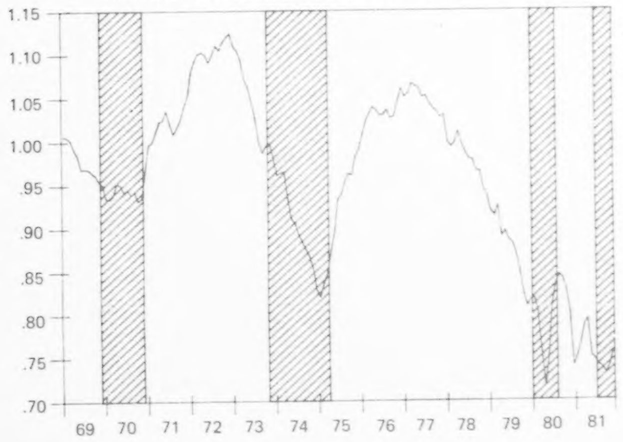
MONDAY, JANUARY 11, 1982
VOLUME XIX, NUMBER 2

The Light At The End Of The Tunnel . . .

Some of those who monitor the pulse of the economy have begun to assert that the pace of the decline in economic activity has slowed considerably and that the recovery is not far away. The most common basis for this opinion is the two-month rise in the ratio of coincident to lagging indicators, which followed five months of decline. However, there seem to be other, more important signals which indicate that the slump in business activity may not only continue for several more months—but could get worse before it gets better.

At first glance, the ratio of coincident to lagging indicators appears to have been a reliable indicator of turning points in business cycles (see chart). However, a closer look reveals that during the last three recessions it registered at least one false start—and the current upturn may be one, too. For example, this ratio turned up three months after the start of the 1969-70 recession, and continued rising for two months before zigzagging downward for another six months. Similarly, during the 1973-75 downturn, there were two false starts in this indicator. In 1980, it rose for two months at the beginning of the recession—only to fall again for the next three months. Finally, the ratio dropped sharply following the end of that recession, although the economy expanded for a full year.

RATIO OF COINCIDENT TO LAGGING INDICATORS



. . . May Be An Oncoming Locomotive

Consumers and manufacturers alike feel that the recession is worsening. The December survey of the purchasing managers of 225 large manufacturing companies revealed the widest production cutbacks since the depths of the 1980 recession. Almost one-half reported lower production in December, up from 40 per cent in November. The number of managers reporting shrinking employment at their plants rose to 41 per cent from 36 per cent in the previous month. Consumer spirits, measured by the Conference Board sagged for the fourth consecutive month in December, falling by 25 points since August. More and more people think that business conditions are poor and are increasingly concerned about their jobs—not surprising, in view of the 0.5 point jump in the jobless rate last month to 8.9 per cent.

Despite this growing uneasiness, the buying plans index, which measures consumers' intentions to purchase new homes, new or used cars, large appliances or home furnishings, moved up for the second month in a row. However, nearly 60 per cent of the upturn was due to plans to buy major appliances while the other series remained relatively unchanged. Virtually every appliance category posted an increase, with the biggest gains registered by refrigerators, washing machines and driers, ranges, color TV sets and air conditioners. Since home-buying plans remained unchanged, the increase in intended purchases of appliances seems to indicate consumers' decisions to upgrade their existing homes. Plans to buy an automobile—new or used—inched ahead only slightly, while intentions to travel by automobile declined once again.

A glance at many weekly and monthly statistics suggests that the economy continued to contract rapidly in December, with the pace exceeding that registered at the start of the fourth quarter. Most importantly, new domestic car sales plunged in December, posting the worst ten-day totals in many years. In fact, the seasonally adjusted number of cars sold during the last ten-day selling period was down one-third from a year ago and was the lowest for this holiday period in at least two decades. For all of December, the seasonally adjusted annual sales

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rate of 4.96 million was 7.4 per cent lower than in November and the lowest since 1970, when sales were curtailed by the strike at General Motors.

Housing And Autos Are Still Falling . . .

What is more, new car inventories rose to 83 days' supply on December 1—the highest ever for that date. In response, manufacturers cut production by almost 28 per cent, year-over-year, during the first three weeks of December. Furthermore, January production was slated at 373,361 units, down 13.6 per cent from the year before. However, these schedules were prepared in mid-December, before the disastrously low sales volume of the last two ten-day selling periods was known, suggesting that first-quarter 1982 production may be slashed even more than originally planned.

Total retail sales were also weak, despite the sizable markdowns taken prematurely by retailers. Seeing a poor start of the Christmas selling season, many merchants slashed prices as early as in late November, to entice shoppers into their stores. This not only cut sharply into their earnings, but some of the volume may well have been borrowed from January's sales as people took advantage of pre-holiday discounts, thus did not have to wait for post-Christmas clearances.

Although privately owned housing units were

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/30/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.778	– .053	+12.333
Loans to Depository Inst.	.883	+ .262	- .744
Float	3.792	– .224	– 5.257
Total Reserve Bank Credit	153.482	+ .088	+ 7.625
Treasury Deposits with Federal Reserve Banks	2.912	– .303	– .374
Currency Outside Banks	129.233	+ .301	+ 5.975
Member Bank Reserves:			
Required	42.031	+ .310	+ 1.473
Excess (Deficiency)	.618	+ .243	+ .122
Total Reserves Held	42.649	+ .553	+ 1.595
Net Borrowed Reserves	.190	+ .014	– .825
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.122	– 1.225	+ 2.159

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	440.4	+ 8.8‡	+ 6.4‡
M2 (November '81)	1,824.7	+ 10.7	+ 9.4
M3 (November '81)	2,168.4	+ 9.6	+ 11.1
L (September '81)	2,574.4	+ 11.4	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/8/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	11.25%	12.00%	12.00%
* Federal Agencies	12.00	12.90	13.25
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	13.70	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	12.70	13.50	15.25

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	11.75%	Feb.	12.20%
15- 29 days	12.25	Mar.	12.20
30- 59 days	12.13	Apr.	12.25
60- 89 days	12.13	May	12.65
90-179 days	12.13	Jun.	12.65
180-239 days	11.13	Jul.	12.65
240-270 days	10.00		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	12.13%		
90-120 days	12.25	Effective Rate	12.05%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,965	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,516	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	1.4	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Nov '81	6.0%	4.8%	13.2%
Change in Producer Prices*	Nov '81	6.0%	7.2%	8.4%
Civilian Employment (Thousands of Persons) †	Dec '81n	97,188	98,025	97,282
Unemployment as % of Civilian Labor Force †	Dec '81n	8.9%	8.4%	7.4%
Personal Income*	Nov '81	$ 2,489	$ 2,475	$ 2,258
Leading Indicators Composite Index (1967=100) †	Nov '81n	127.8	128.2	136.5
Industrial Production Index (1967=100) †	Nov '81	146.5	149.6	149.2
Net Change in Consumer Installment Credit †	Oct '81	$ 1.01	$ 2.82	$ 0.70
U.S. Merchandise Trade Balance †	Nov '81n	–$ 3.40	–$ 4.19	–$ 1.15
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Nov '81	871	864	1,550
New Construction Expenditures*	Nov '81n	$ 230.3	$ 229.8	$ 234.3
Total Business Inventories †	Oct '81	$ 513.0	$ 508.1	$ 473.6
Total Business Sales †	Oct '81	$ 345.5	$ 353.7	$ 335.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

started in November at a seasonally adjusted annual rate 0.7 per cent higher than in October, builders did not actually experience any increase in construction activity. In fact, actual housing starts fell 25 per cent from the previous month and were almost 43 per cent below the year-ago level. The seasonal factors used to adjust these numbers become disproportionately large during the winter season as construction typically slows due to the cold weather. Building permits for new housing construction declined by 0.6 per cent from the previous month, standing nearly 45 per cent below year-earlier levels.

Whether seasonally adjusted or not, these housing numbers portend further weakness for the construction sector in the near future. What is more, the ongoing depressed condition of the housing and auto sectors presages declines in activity for many other "downstream" industries and precludes their recovery anytime soon.

. . . As Are Many Other Industries

For example, year-to-year comparisons of steel production, which became slightly negative in mid-October following nine months of increases, turned into a 25 per cent decline in December. Declines in the output of paperboard also widened toward yearend. In October, production of paperboard dropped 2.3 per cent below the October,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/23/81)	137,033	+ 2,078	+21,589
New York City (12/23/81)	34,835	+ 258	+ 6,252
Commercial Paper (12/23/81)	165,479	– 473	+43,027

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/23/81)	192,542	– 1,017	+19,517
New York City (12/23/81)	54,994	– 92	+ 4,240

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/23/81)	469,018	– 519	+39,158
New York City (12/23/81)	111,208	– 325	+ 9,949

Financial Markets

	Friday 1/8/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.95%	+ .86	– 4.05
180-Day Bills†	13.20	+ 1.40	– 2.40
Longest Bills†	13.67	+ .39	– .61
Recent Issues:			
13s 12/31/83	14.08	+ .14	
14⅛s 12/31/85	14.40	+ .66	
14¼s 11/15/91	14.40	+ .36	
14s 11/15/11	14.05	+ .57	
Municipals:			
Bond Buyer–20 Bond Index* (1/7/82)	13.36%	+ .06	+ 3.87
Blue List Total ($ Million)	$1,042	– $178	+ $ 436
30-Day Visible Supply ($ Million)	$2,120	+ $311	+ $1,238
Total	$3,162	+ $133	+ $1,674
Corporates:			
Moody's Aa Composite (1/7/82)	15.65%	+ .24	+ 2.30
30-Day Visible Supply ($ Million)	$8,992	– $ 20	+ $5,300
Stocks:			
Dow-Jones Averages:			
Industrials	866.53	– 8.47	– 102.16
Transportation	368.67	– 11.63	– 16.15
Utilities	107.68	– 1.34	– 5.21
65 Stocks	341.99	– 5.81	– 27.78
Standard and Poor's 500 Stocks	119.55	– 3.00	– 13.93
N.Y.S.E. Composite Index	69.36	– 1.75	– 7.08
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,302	+ 7,462	– 20,832

* 46% Taxable equivalent 24.74%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/8/82	Week Ago
Overnight	12.25%	13.50%
1 month	13.13	13.19
3 month	13.63	13.75
6 month	14.56	14.75
1 year	14.56	14.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.85%	14.65%
Long Term (7 to 15 yrs.)	15.20	15.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/8/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02597	38.51
Canada	.8425	1.1869
Denmark	.1357	7.3693
France	.1742	5.7405
Germany	.4424	2.2605
Italy	.0008264	1210.10
Japan	.004512	221.65
Mexico	.03789	26.39
Netherlands	.4031	2.4805
Switzerland	.5468	1.8288
U.K.	1.9152	.5221

1980 level; by December, output slumped by 6.5 per cent compared with the year before. Despite the reduction in output, inventories at box plants soared and in November they were 26 per cent above their year-earlier level.

Reflecting the declines in production and demand, the need for transportation has also diminished. Shipping by railroads has been declining since early August. In December, 1981, the number of railroad cars loaded (excluding sharply fluctuating grain and coal shipments) was 18 per cent lower than in 1980, following a 14.6 per cent reduction in the previous month. Similarly, hauling by trucks has showed intensifying declines in recent months.

Demand for other metals has also fallen considerably while inventories at the producer and consumer levels soared, causing sharp cutbacks in operating rates. As a result, prices plummeted, adversely affecting industry profits. Nonferrous metal production was down in 1981 from 1980 in all areas except for copper where second-half comparisons were favorable because of a three-month strike in the summer of 1980. As the cost of extraction of some metals began to exceed the selling price, producers responded with increasing layoffs, mine shutdowns and deferred capital spending projects.

For example, the aluminum industry has been posting lower earnings since mid-1980. Primary aluminum production picked up in early 1981 as the economy expanded, but it started to descend again in June. During the three months ending in November, 1981, output was running more than ten per cent below the 1980 depressed level. What is more, new orders, which have been sagging since January, have disappeared even faster—falling 36 per cent in November, month-over-month, and slipping 31 per cent below year-ago levels.

Lead prices have fallen precipitously over the past year, but the decline intensified in the past five months as the demand for batteries dried up with the decline in auto production. Lead prices are currently about 20 per cent lower than they were a year ago. The only hope for battery makers, and thus the market for lead, is for a very cold winter which would take its toll on car batteries installed several winters ago and rejuvenate the demand for replacement batteries. The other big market for lead—anti-knock additives for gasoline which account for about ten per cent of consumption—has been in a protracted decline as the use of regular gasoline declines and the share of lead-free expands every year.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 18, 1982
VOLUME XIX, NUMBER 3

Jobless Picture Bleaker Than It Looks

The worst news released so far during the current recession was the big jump in the unemployment rate in December. At 8.9 per cent of the labor force, it is just a shade below the postwar high of nine per cent recorded in 1975. What is more, there are signs pointing to further increases. Many manufacturers are still reducing the average workweek at their plants—a traditional precursor of more layoffs.

The unemployment rate for adult men did reach a postwar high in December—eight per cent. However, the hardship incurred by some households may have been easier to bear than in earlier recessions. The number of families with two or more incomes had increased to 55.3 per cent by the beginning of last year, from 46 per cent in 1960. What is more, over the past year, nearly two-thirds of the 1.5 million workers who entered the labor force were women, many trying to offset the loss of their husbands' earnings.

Ominously, the number of people out of work for more than five weeks rose to 5.4 million in December. This is the highest level in at least three decades and represents an increase of more than 25 per cent since July, 1981, when the nation just entered into recession. Furthermore, as is typical during economic downturns, the rise in the number of unemployed since July was due to stepped-up layoffs, rather than an increase in the number of persons who entered the labor force in search of work—such as the return of some previously discouraged workers. The number of those losing their jobs surged by more than 1.6 million during the five months ending last December, while the number of those entering the labor force—for the first time or coming back—grew by only 320,000.

Confirming the bleak outlook for the job market was the rise in the number of those workers who gave up looking for jobs completely and thus left the labor force. During the fourth quarter, these discouraged workers totaled 1.2 million—the highest number on record. Finally, the number of persons who were forced to work part-time for economic reasons because they could not find a full-time job or their hours in the current job were reduced, also set a record.

Global Prospects For 1982 . . .

The United States will not be able to look to the rest of the world for much assistance in recovering from the current recession. The members of the Organization for Economic Cooperation and Development (OECD), who consist of the 24 most developed nations of the free world, anticipate aggregate growth in real GNP of less than 1.5 per cent in 1982, about the same as in 1981. The less developed economies (LDCs), whose economic fortunes are largely tied to growth in the OECD nations, also cannot expect to be generators of world recovery.

The table illustrates the gradual erosion in real growth of several of the world's leading economies and the weak prospects for 1982. High interest rates and their consequences are a principal cause of the global slowdown. In response to inflationary pressures in the United States, the Federal Reserve Board introduced a tight monetary policy in early 1980 which raised interest rates to unprecedented levels. As a result, the dollar strengthened against other currencies.

GROWTH IN REAL GNP
(percent change from previous year)

	1979	1980	1981	1982
	actual		provisional	projected
West Germany	4.3	1.8	–0.5	1.5
France	3.5	1.6	0.1	2.0
Italy	4.9	4.0	–1.0	1.5
United Kingdom	1.4	–1.4	–2.1	1.0
Japan	5.6	4.2	4.0	4.5
United States	3.2	–0.2	1.8	–1.0

Source: IMF, OECD Economic Outlook, MHT Projections

In order to protect their exchange rates other countries were forced to introduce restrictive monetary measures as well. Consequently, there has been a deceleration in inflation rates in most countries but also a decline in growth rates. World

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trade, which is closely related to growth, has also suffered. The volume of world trade, which grew six per cent in 1979, increased by only 1.5 per cent in 1980 and probably showed even smaller growth in 1981. Indeed, some economists expect that when a firm figure for 1981 is available, it may show an absolute decline in real terms. For 1982, growth in the volume of world trade is expected to be about two per cent, most of which will occur in the second half of the year.

LDCs have been particularly hard hit. Prices for commodities, which account for about one-half of world trade, have fallen sharply for the past year and are not expected to grow much in 1982 because demand is expected to remain weak. The probable surpluses in the 1981/82 harvest season for sugar, coffee and cocoa will keep prices down and grain harvests are expected to be good for most traditional exporters, too. Oil prices will probably remain stable, however, benefitting importers and reducing the OPEC surplus.

Unemployment, which has been a major consequence of low growth and high interest rates (particularly affecting the cost of consumer credit), grew rapidly in 1981 and is expected to continue to grow well into 1982. It may reach ten per cent of the work force in Europe. For the OECD as a whole, there may be as many as 28 million people out of

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 1/6/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	140.378	+ 1.600	+ 9.879
Loans to Depository Inst.	1.454	+ .571	+ .337
Float	3.536	– .104	– 2.163
Total Reserve Bank Credit	154.857	+ 1.515	+ 8.775
Treasury Deposits with Federal Reserve Banks	3.747	+ .835	+ .768
Currency Outside Banks	129.081	– .142	+ 6.158
Member Bank Reserves:			
Required	42.145	+ .114	+ 1.771
Excess (Deficiency)	.654	+ .182	– .010
Total Reserves Held	42.799	+ .296	+ 1.761
Net Borrowed Reserves	.741	+ .405	+ .400
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.079	+ .957	– 3.208

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	450.2	+ 10.1‡	+ 6.6‡
M2 (December '81)	1,842.0	+ 12.4	+ 10.3
M3 (December '81)	2,187.1	+ 10.0	+ 11.3
L (September '81)	2,574.4	+ 11.4	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/15/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	11.80%	12.50%	12.55%
* Federal Agencies	12.85	13.90	13.55
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.25	14.13	14.88

‡ Finance Company Paper—Prime	
5- 14 days	12.50%
15- 29 days	12.50
30- 59 days	12.38
60- 89 days	12.25
90-179 days	12.25
180-239 days	12.50
240-270 days	11.50

‡* Bankers' Acceptances	
Fab.	12.30%
Mar.	12.55
Apr.	12.80
May	13.20
Jun.	13.30
Jul.	13.20

‡ Industrial Paper—Prime	
30- 89 days	12.38%
90-120 days	12.75

† Federal Funds Effective Rate 12.35%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,965	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,516	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	1.4	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Nov '81	6.0%	4.8%	13.2%
Change in Producer Prices*	Dec '81n	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons) †	Dec '81	97,188	98,025	97,282
Unemployment as % of Civilian Labor Force †	Dec '81	8.9%	8.4%	7.4%
Personal Income*	Nov '81	$ 2,489	$ 2,475	$ 2,258
Leading Indicators Composite Index (1967=100) †	Nov '81	127.8	128.2	136.5
Industrial Production Index (1967=100) †	Dec '81n	143.3	146.4	150.4
Net Change in Consumer Installment Credit †	Nov '81n	$ 0.34	$ 1.01	$ 0.84
U.S. Merchandise Trade Balance †	Nov '81	–$ 3.40	–$ 4.19	–$ 1.15
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Nov '81	871	864	1,550
New Construction Expenditures*	Nov '81	$ 230.3	$ 229.8	$ 234.3
Total Business Inventories†	Nov '81n	$ 515.2	$ 511.7	$ 474.9
Total Business Sales †	Nov '81n	$ 344.6	$ 345.3	$ 339.0

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

work by the end of the year, about eight per cent of the total work force. The political and social pressures which these levels of unemployment may create could cause some governments to alter their monetary policies toward greater ease, hoping to stimulate growth and employment even at the risk of higher inflation. France appears already to have opted for this approach. On the other hand, inflation in the developed nations, currently running about 9.5 per cent, could be reduced to perhaps eight to 8.5 per cent for 1982 as a whole.

. . . Are Not All Gloomy

In spite of the many pessimistic aspects of the present global economic situation, the major European economies should post an improved performance in the latter half of 1982. Real growth in second-half 1982 could reach 2.5 per cent for the developed countries of Western Europe after a slow first half and performance is expected to accelerate in 1983. Much of the improvement in 1982 may come from increased domestic demand resulting from lower credit costs as well as deferred demand from the previous 18 months.

As demand grows, exports should improve as well, leading to gradual improvement worldwide. Already there is evidence in some countries that the process of recovery is beginning. A slowing of inflation, declining interest rates and a pickup in exports and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/30/81)	137,514	+ 481	+21,313
New York City (12/30/81)	34,028	− 807	+ 5,379
Commercial Paper (12/30/81)	162,980	− 2,618	+41,383

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/81)	195,535	+ 2,728	+20,566
New York City (12/30/81)	56,225	+ 1,231	+ 4,471

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/81)	471,234	+ 2,226	+36,542
New York City (12/30/81)	111,976	+ 768	+ 7,090

Financial Markets

	Friday 1/15/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.65%	+ .70	− 3.27
180-Day Bills†	14.15	+ .95	− 1.05
Longest Bills†	14.55	+ .88	+ .72
Recent Issues:			
13s 12/31/83	15.66	+ 1.58	
14 1/8s 12/31/85	15.23	+ .83	
14 1/4s 11/15/91	14.90	+ .50	
14s 11/15/11	14.48	+ .43	
Municipals:			
Bond Buyer–20 Bond Index* (1/14/82)	13.44%	+ .08	+ 3.87
Blue List Total ($ Million)	$ 841	− $201	+ $ 252
30-Day Visible Supply ($ Million)	$1,571	− $549	+ $ 303
Total	$2,412	− $750	+ $ 555
Corporates:			
Moody's Aa Composite (1/14/82)	15.70%	+ .05	+ 2.17
30-Day Visible Supply ($ Million)	$9,252	+ $260	+ $5,754
Stocks:			
Dow-Jones Averages:			
Industrials	847.60	− 18.93	− 125.69
Transportation	352.63	− 16.04	− 49.35
Utilities	104.18	− 3.50	− 9.04
65 Stocks	331.63	− 10.36	− 44.29
Standard and Poor's 500 Stocks	116.33	− 3.22	− 18.44
N.Y.S.E. Composite Index	67.41	− 1.95	− 9.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,456	+ 3,154	+ 4,602

* 46% Taxable equivalent 24.89%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/15/82	Week Ago
Overnight	12.50%	12.25%
1 month	13.44	13.13
3 month	14.06	13.63
6 month	14.81	14.56
1 year	15.06	14.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.85%	14.85%
Long Term (7 to 15 yrs.)	15.20	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/15/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02556	39.13
Canada	.8386	1.1925
Denmark	.1331	7.5142
France	.1713	5.8385
Germany	.4349	2.2992
Italy	.0008120	1231.50
Japan	.004474	223.50
Mexico	.03785	26.42
Netherlands	.3972	2.5175
Switzerland	.5402	1.8513
U.K.	1.8733	.5338

export orders are signalling the change. The weakness of most currencies against the dollar has helped exports, particularly in West Germany, the United Kingdom and Japan, all of whose economies are heavily export-oriented. Although the dollar is expected to weaken somewhat on a trade-weighted basis in 1982 (helping U.S. exports), it is still expected to remain above the levels of 1979 and 1980. Thus, the terms of trade for the developed countries should come into better balance as 1982 progresses. This will be reflected in reduced trade and current account deficits for some developed countries and reduced surpluses for others. H

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

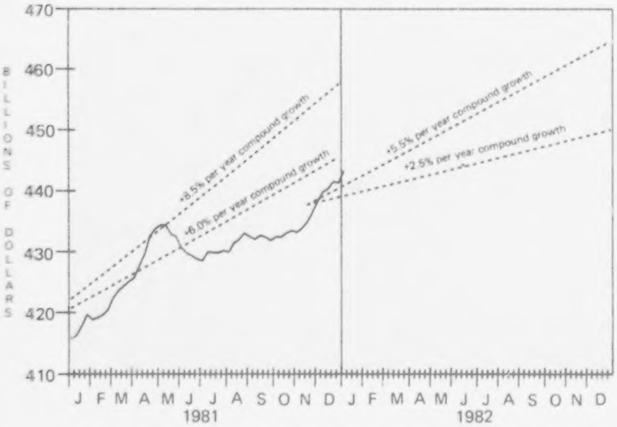
MONDAY, JANUARY 25, 1982 VOLUME XIX, NUMBER 4

The Bulge In The Money Supply . . .

One of the more disturbing economic developments occurring in recent weeks has been the sharp bulge in the money supply, and the attendant backup of short- and long-term interest rates. Despite evidence of a deep recession, spreading joblessness and a continued moderation of rates of inflation, money supply growth has ballooned and interest rates are moving higher. Already, M1 is well above its upper growth target boundary for 1982 which, together with the extremely bleak Federal budget outlook, have again raised the specter of a significant tightening of the monetary reins.

Not surprisingly, this prospect has led to a reversal of much of last autumn's money and bond market gains. During the four weeks ending January 20, for example, short-term interest rates rose by as much as 125 basis points, while top-quality corporate bond yields increased up to 116 basis points. But, with the economy remaining weak and the growth of short-term business credit demands expected to slow due to both seasonal and cyclical factors, money supply growth should ease and additional interest rate declines may occur in the weeks ahead (Financial Digest—January 4, 1982).

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE



While the recent behavior of the monetary aggregates and short-term business credit demands suggest a bottoming of the recession and the imminent onset of a rebound in the pace of economic activity, all the other data on the performance of the economy do not. Surveys of households, businesses and purchasing agents all indicate that the trough of the recession may still be a few months away, while recent indicators of economic activity seem to confirm this conclusion. Among the more important were the fourth consecutive monthly decline in the index of leading economic indicators in November, the very weak pace of new automobile sales and new-home construction, the sharp drop in industrial production in December (the fifth consecutive monthly decline) and a further increase in the unemployment rate. To top it off, the real gross national product fell for the fourth time in eleven calendar quarters, while the annual rise in consumer prices in 1981 slowed to 8.9 per cent — the smallest yearly gain since 1977.

. . . Raises A Difficult Dilemma . . .

As a result of this contradiction between the behavior of the money supply and interest rates and the pervasive weakness affecting the economy, the Federal Reserve is now confronted with a difficult policy dilemma. As shown in the chart, the source of the Fed's problem arises from the growth of its key monetary aggregate M1—it is already above its 5½ per cent upper target boundary for 1982. With the Fed committed to controlling the supply of credit, rather than its price, some policy response is likely. But selecting the appropriate response is not without its problems. For example, the Fed could move quickly to bring M1 growth back within its target range by curtailing the provision of nonborrowed reserves to the banking system. However, this would produce another sharp run-up in interest rates and reduce the chances for an economic recovery to begin anytime soon. With rising joblessness becoming more important and inflation less so, such a tightening of credit could provoke a political firestorm in Washington.

Alternatively, the Fed could sit tight and be cautious. If the economy is as weak as it appears, then money supply growth will decelerate on its own in coming weeks and the problem will correct itself. The risk in this course of action is that if the central bank disregards the current bulge in the money supply and M1 stays permanently higher,

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investor fears of too rapid money supply growth, along with concerns over the dismal Federal budget outlook, could be devastating for the financial markets. The fallout would affect not only the near-term outlook, but the longer run as well, due to the almost certain revival of inflation psychology.

Against this backdrop, it appears a good bet that monetary policy will remain in a holding pattern—at least until either the recession deepens or the bulge in the money supply does indeed prove permanent. The situation is simply too unclear to justify an aggressive policy turn in either direction. However, if M1 continues to move to even higher levels, then the possibility of a sharp turn toward restraint will loom larger.

. . . For The Federal Reserve

Such a tightening of the credit reins in the midst of a deep recession with receding inflation would seem peculiar. The economy has probably not yet reached bottom, with inventory workdowns still to come, business spending likely to remain sluggish due to lackluster sales and earnings prospects and household spending adversely affected by the perverse "wealth" effects of slumping equity, bond and home prices. But this implies that money supply growth should soon ease even in the absence of renewed restraint by the Fed, once the current surge is past. Money supply gains at this time appear to be related to Fed decisions made two and three months ago at the onset of the current recession, rather than

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/13/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	136.423	– 3.955	+ 7.141
Loans to Depository Inst.	.997	– .457	– .335
Float	4.145	+ .513	– .344
Total Reserve Bank Credit	150.849	– 4.105	+ 7.158
Treasury Deposits with Federal Reserve Banks	3.069	– .678	– .016
Currency Outside Banks	126.620	– 2.463	+ 7.108
Member Bank Reserves:			
Required	42.175	+ .030	+ .935
Excess (Deficiency)	.233	– .511	– .508
Total Reserves Held	42.408	– .481	+ .427
Net Borrowed Reserves	.711	+ .060	+ .225
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.806	+ .727	– 3.823
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	451.3	+ 12.6‡	+ 7.1‡
M2 (December '81)	1,842.2	+ 12.4	+ 10.4
M3 (December '81)	2,187.1	+ 10.0	+ 11.3
L (September '81)	2,574.4	+ 11.4	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 1/22/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.20%	12.70%	12.80%
* Federal Agencies	12.80	14.04	14.20
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	13.15	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.05	14.75	16.00

‡ Finance Company Paper—Prime	
5- 14 days	12.50%
15- 29 days	12.75
30- 59 days	12.75
60- 89 days	13.00
90-179 days	12.50
180-239 days	12.50
240-270 days	12.00

‡* Bankers' Acceptances	
Feb.	13.00%
Mar.	13.00
Apr.	13.20
May	13.40
Jun.	13.65
Jul.	13.50

‡ Industrial Paper—Prime	
30- 89 days	13.13%
90-120 days	13.25

† Federal Funds Effective Rate 13.65%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81n	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81n	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81n	– 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81n	4.8%	6.0%	12.0%
Change in Producer Prices*	Dec '81	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons) †	Dec '81	97,188	98,025	97,282
Unemployment as % of Civilian Labor Force †	Dec '81	8.9%	8.4%	7.4%
Personal Income	Dec '81n	$ 2,492	$ 2,488	$ 2,277
Leading Indicators Composite Index (1967=100) †	Nov '81	127.8	128.2	136.5
Industrial Production Index (1967=100) †	Dec '81	143.3	146.4	150.4
Net Change in Consumer Installment Credit †	Nov '81	$ 0.34	$ 1.01	$ 0.84
U.S. Merchandise Trade Balance †	Nov '81	–$ 3.40	–$ 4.19	–$ 1.15
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Dec '81n	978	863	1,535
New Construction Expenditures*	Nov '81	$ 230.3	$ 229.8	$ 234.3
Total Business Inventories †	Nov '81	$ 515.2	$ 511.7	$ 474.9
Total Business Sales †	Nov '81	$ 344.6	$ 345.3	$ 339.0

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

to any residual economic strength.

While the slowing of money supply growth would tend to stabilize the financial markets, the current predicament is undoubtedly causing the Fed to review its monetary growth targets for 1982. On a preliminary basis, these have been set at 2½-5½ per cent for M1 and six to nine per cent for M2. Whether they will be significantly altered remains to be seen; the adverse psychological impact of raising the annual targets may be deemed too costly. What the central bank could do, however, would be to leave the growth boundaries themselves unchanged, but set the starting points from which the targets are calculated at the higher December levels instead of the lower fourth quarter averages, as is the case at the moment. This switch alone would eliminate much of the dilemma; as of the latest four-week average, M1 is only slightly above its upper target boundary using a December, rather than fourth quarter, base.

But with the real GNP down at a steep 5.2 per cent annual rate in the fourth quarter, and evidently still contracting in the first, one step which the Fed probably will take is to set its short-term money growth targets at or above the top end of whatever annual target ranges are decided upon. This, in turn, would allow the Fed more policy leeway in the first quarter than now appears likely—at least more than that suggested by the annual growth targets. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/6/82)	132,142	– 3,958	+17,589
New York City (1/6/82)	32,050	– 1,978	+ 2,896
Commercial Paper (1/6/82)	163,207	+ 421	+37,969

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/6/82)	195,980	+ 284	+22,802
New York City (1/6/82)	55,802	– 423	+ 4,559

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/6/82)	471,470	+ 1,547	+39,142
New York City (1/6/82)	111,128	– 848	+ 7,789

Financial Markets

	Friday 1/22/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.89%	+ 1[illegible]	– 2.65
180-Day Bills†	14.81	+ [illegible]	– 1.19
Longest Bills†	14.86	+ .31	+ .11
Recent Issues:			
13s 12/31/83	13.46	– 2.20	
14¹/₈s 12/31/85	15.65	+ .42	
14¹/₄s 11/15/91	15.58	+ .68	
14s 11/15/11	14.54	– .06	
Municipals:			
Bond Buyer–20 Bond Index* (1/21/82)	13.16%	– .28	+ 3.48
Blue List Total ($ Million)	$ 790	– $ 51	+ $ 141
30-Day Visible Supply ($ Million)	$1,904	+ $333	+ $ 161
Total	$2,694	+ $282	+ $ 302
Corporates:			
Moody's Aa Composite (1/21/82)	15.82%	+ .12	+ 2.17
30-Day Visible Supply ($ Million)	$9,177	– $ 75	+ $4,706
Stocks:			
Dow-Jones Averages:			
Industrials	845.03	– 2.57	– 95.16
Transportation	342.03	– 10.60	– 49.58
Utilities	104.06	– .12	– 7.70
65 Stocks	327.96	– 3.67	– 37.31
Standard and Poor's 500 Stocks	115.38	– .95	– 14.85
N.Y.S.E. Composite Index	66.78	– .63	– 7.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,420	– 1,036	+ 7,456

* 46% Taxable equivalent 24.37%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/22/82	Week Ago
Overnight	13.75%	12.50%
1 month	13.88	13.44
3 month	14.56	14.06
6 month	15.31	14.81
1 year	15.38	15.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.95%	14.85%
Long Term (7 to 15 yrs.)	15.20	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/22/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02552	39.19
Canada	.8382	1.1930
Denmark	.1328	7.5308
France	.1708	5.8565
Germany	.4344	2.3020
Italy	.0008098	1234.90
Japan	.004416	226.43
Mexico	.03771	26.52
Netherlands	.3964	2.5225
Switzerland	.5408	1.8490
U.K.	1.8697	.5348

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
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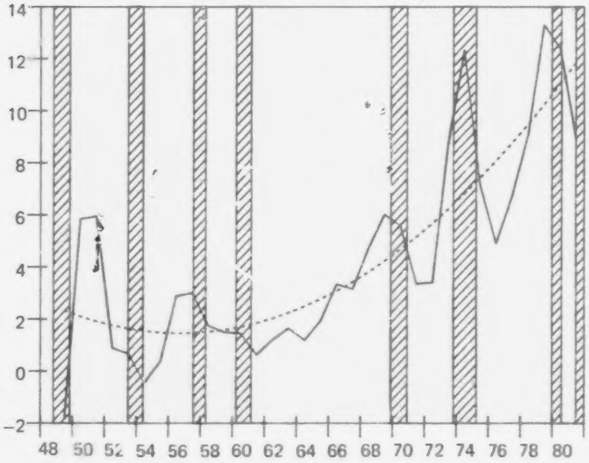
MONDAY, FEBRUARY 1, 1982 VOLUME XIX, NUMBER 5

The Good News . . .

The best, if not the only favorable economic news of 1981 was the dramatic drop in the rate of inflation. Retail price increases (measured by the CPI) slowed by one-quarter compared with 1980 while producer prices (PPI) advanced at just slightly more than one-half the rate of the year before. No matter which measure is used, 1981's rise in prices was the smallest since 1977.

CHART I
CONSUMER PRICE INDEX
ANNUAL PERCENT CHANGE (LINE) VS.
LONG TERM TREND (DOT)



However, when compared with historical levels, last year's accomplishment pales. For example, the 8.9 per cent advance in consumer prices in 1981 is the fifth highest since 1950 and it is four times as high as the average rate which prevailed during the 20 years ending in 1970. This suggests that the battle against inflation is far from over. Inflation may be considered beaten only after it slows further from current rates and stays down in the years that follow—after the rebound in business activity gets under way.

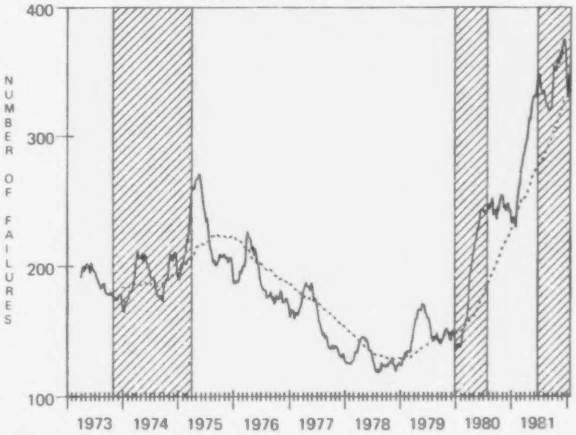
Further improvement in 1982 is likely. The current economic downturn, which began in July, 1981, and has not reached bottom yet, is expected to provide some additional relief. As Chart I indicates, depressed demand has traditionally dampened price rises, and the downward pressure usually continued into the subsequent recoveries. For example, the 1973-75 downturn kept inflation falling for nearly two years after its conclusion while the rate of inflation was down for at least one year following all other postwar recessions.

The longer term outcome will depend on the trend in the core rate of inflation—determined by wage gains offset by productivity improvements. Since 1965, the gains in compensation have continuously outpaced those in productivity, putting upward pressures on costs and prices. By 1981, this core rate of inflation was almost nine per cent. But starting in 1982, these cost increases should be restrained. Besides smaller wage increases, there should be increased investment in more efficient machines—aided by the recently implemented accelerated depreciation schedules, business tax reductions, favorable demographic trends and eventually, lower interest rates.

. . . And The Bad News

Although the decline in inflation is welcome news to the Administration as well as many consumers and businesses, the improvement has not come without cost. There was a sharp contraction in the nation's output of goods and services in the final quarter of 1981, accompanied by a rate of unemployment that nearly set a new postwar record and a dramatic rise in the number of business bankruptcies.

CHART II
BUSINESS FAILURES
THIRTEEN WEEK MOVING AVERAGE (LINE) VS.
FIFTY-TWO WEEK MOVING AVERAGE (DOT)



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Many businesses incurred sizable losses despite cutting wages of some workers or laying off others, as was the case in the auto, tire, construction, meatpacking, steel, trucking and airline industries. In many cases, companies were forced to close their doors permanently. In fact, according to Dun and Bradstreet, the number of business failures increased two and a half times between 1978 and 1981 (see Chart II). In 1981 alone, the number of bankruptcies was 44 per cent higher than in 1980 and so far this year they are up another 36 per cent. Retailers posted one of the biggest jumps in bankruptcies during this post-holiday period. They were forced to slash prices during the Christmas season to entice shoppers into stores, some cutting too deeply into their profitability.

Commodities' Producers Suffer . . .

Producers of such raw materials as metals, lumber, cotton and chemicals have seen some of the steepest price declines. Prices of these commodities traditionally react promptly to changes in supply and demand long before these effects filter through to finished goods. Raw industrial commodities' prices have declined at an annual rate of more than 20 per cent in the past six months. Prices of some primary metals have dropped below the cost of extracting them, causing shutdowns of many mines. In many other industries, manufacturers suspended operations as production costs exceeded prices.

While the rest of the population benefited from moderating food prices, farmers have been feeling

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/20/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.958	– 1.465	+ 6.252
Loans to Depository Inst.	.950	– .050	– .469
Float	6.762	+ 2.651	+ 3.112
Total Reserve Bank Credit	152.178	+ 1.354	+ 9.176
Treasury Deposits with Federal Reserve Banks	3.712	+ .643	+ .603
Currency Outside Banks	125.199	– 1.405	+ 7.154
Member Bank Reserves:			
Required	44.352	+ 2.177	+ 2.172
Excess (Deficiency)	.334	+ .140	– .173
Total Reserves Held	44.686	+ 2.317	+ 1.999
Net Borrowed Reserves	.546	– .207	– .243
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.430	– 1.376	+ 2.910
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1	450.5	+ 13.9‡	+ 7.2‡
M2 (December '81)	1,842.0	+ 12.4	+ 10.3
M3 (December '81)	2,187.4	+ 10.1	+ 11.3
L (September '81)	2,574.4	+ 11.4	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/29/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.00%	12.25%	12.20%
* Federal Agencies	13.50	13.40	14.05
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.95	14.30	15.50

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.13%	Feb.	13.35%
15- 29 days	13.00	Mar.	13.35
30- 59 days	13.25	Apr.	13.35
60- 89 days	13.00	May	13.35
90-179 days	13.25	Jun.	13.35
180-239 days	13.25	Jul.	13.35
240-270 days	13.25		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	13.[illegible]%	Effective Rate	14.10%
90-120 days	13.30		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81	4.8%	6.0%	12.0%
Change in Producer Prices*	Dec '81	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons) †	Dec '81	97,188	98,025	97,282
Unemployment as % of Civilian Labor Force †	Dec '81	8.9%	8.4%	7.4%
Personal Income	Dec '81	$ 2,492	$ 2,486	$ 2,277
Leading Indicators Composite Index (1967=100) †	Dec '81n	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Dec '81	143.3	146.4	150.4
Net Change in Consumer Installment Credit †	Nov '81	$ 0.34	$ 1.01	$ 0.84
U.S. Merchandise Trade Balance †	Nov '81	–$ 3.40	–$ 4.19	–$ 1.15
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Dec '81	978	863	1,535
New Construction Expenditures*	Nov '81	$ 230.3	$ 229.8	$ 234.3
Total Business Inventories †	Nov '81	$ 515.2	$ 511.7	$ 474.9
Total Business Sales †	Nov '81	$ 344.6	$ 345.3	$ 339.0

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

the pinch. Prices of agricultural commodities declined 13 per cent during 1981 as record harvests drove farm prices sharply lower while the cost of production rose by four per cent. As a result, the Agriculture Department's parity ratio—a measure of farmers' purchasing power—fell to its lowest level since the Great Depression.

. . . The Recession Deepens . . .

Real Gross National Product declined at a seasonally adjusted annual rate of 5.2 per cent in the fourth quarter, slumping once again below the level prevailing almost two years ago—at the onset of the 1980 recession. A close look at this steep decline—the fifth largest in more than 30 years—suggests still worse times ahead. Most importantly, for the third quarter in a row, there was a hefty accumulation of inventories. This occurred despite a 7.1 per cent reduction in production schedules since July. At the start of December the total business inventory-to-sales ratio rose to 1.50, the highest since the depths of the 1980 recession, suggesting that further output reductions are in store as businessmen attempt to trim inventories to more comfortable levels.

Real final sales slipped by 3.6 per cent during the quarter, representing more than two-thirds of the overall GNP drop. The declines were widespread, occurring in every major economic sector, with the exception of the Federal government, where spending was boosted by increased purchases of farm products by the Commodity Credit Corporation and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/13/82)	133,022	+ 784	+20,410
New York City (1/13/82)	32,765	+ 715	+ 3,888
Commercial Paper (1/13/82)	164,876	+ 1,665	+37,166

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/82)	194,662	– 1,342	+21,100
New York City (1/13/82)	55,279	– 523	+ 3,727

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/13/82)	468,754	– 2,749	+39,002
New York City (1/13/82)	110,359	– 769	+ 8,151

Financial Markets

	Friday 1/29/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.40%	– .49	– 1.15
180-Day Bills†	13.80	– 1.01	+ .22
Longest Bills†	14.20	– .66	+ 1.72
Recent Issues:			
15s 1/31/84 (When Issued)	14.55	NA	
14$\frac{1}{8}$s 12/31/85	14.40	– 1.25	
14$\frac{1}{4}$s 11/15/91	14.35	– 1.23	
14s 11/15/11	14.05	– .49	
Municipals:			
Bond Buyer–2C Bond Index* (1/28/82)	13.15%	– .01	+ 3.24
Blue List Total ($ Million)	$ 802	+ $ 12	+ $ 172
30-Day Visible Supply ($ Million)	$1,385	– $536	– $ 311
Total	$2,187	– $507	– $ 139
Corporates:			
Moody's Aa Composite (1/28/82)	15.79%	– .03	+ 2.15
30-Day Visible Supply ($ Million)	$8,917	– $260	+ $5,204
Stocks:			
Dow-Jones Averages:			
Industrials	871.10	+ 26.07	– 76.12
Transportation	356.14	+ 14.11	– 46.02
Utilities	107.51	+ 3.45	– 5.31
65 Stocks	339.23	+ 11.27	– 31.13
Standard and Poor's 500 Stocks	120.40	+ 5.02	– 9.15
N.Y.S.E. Composite Index	69.39	+ 2.61	– 4.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	55,738	+ 9,318	+ 16,916

* 46% Taxable equivalent 24.35%.

† Bond equivalent.

International Rates

	Friday 1/29/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.88%	13.75%
1 month	14.13	13.88
3 month	14.50	14.56
6 month	15.00	15.31
1 year	15.13	15.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	14.95%
Long Term (7 to 15 yrs.)	15.05	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/29/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02544	39.31
Canada	.8361	1.1961
Denmark	.1319	7.5798
France	.1704	5.8685
Germany	.4331	2.3087
Italy	.0008076	1238.20
Japan	.004379	228.38
Mexico	.03757	26.615
Netherlands	.3949	2.5325
Switzerland	.5423	1.8440
U.K.	1.8825	.5312

by defense spending. Nonresidential fixed investment decreased by more than 11 per cent at an annual rate as producers' durable equipment purchases slumped by 15.4 per cent. Spending on residential construction tumbled by 28 per cent, at an annual rate, quarter-over-quarter.

Real personal expenditures, which account for two-thirds of the GNP, declined by about 1.8 per cent compared with the third quarter, paced by a 19 per cent drop in purchases of durable goods—most importantly automobiles. Consumers increasingly tightened their spending toward the end of the last quarter and curbed their use of credit—not surprising in view of the jump in unemployment and the slowing growth in personal incomes.

. . . Personal Income Growth Slows

As a matter of fact, wages and salaries declined in December. The drop in the number of people employed combined with the decrease in the average weekly hours worked resulted in a $0.7 billion decline in total wages and salaries compared with November. This was only the second time wages and salaries have declined since the 1973-75 recession. Manufacturing payrolls were hit the hardest, declining for the third month in a row. The greatest cutbacks occurred in motor vehicles, nonelectrical machinery and primary metals.

Depressing the growth in personal incomes was also the smaller increase in the growth of interest income in December. In response to lower interest rates, it expanded by only $2.3 billion compared with November—the smallest rise in 15 months. In the previous 12 months, interest income had been the fastest growing component of personal income, adding an average of $5 billion per month.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

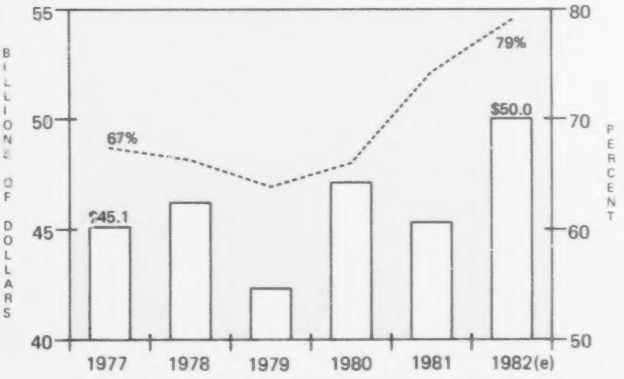
MONDAY, FEBRUARY 8, 1982
VOLUME XIX, NUMBER 6

For State And Local Governments . . .

Despite the well-publicized, and well-founded concern of financial market participants over the vast size of Treasury borrowing requirements, one further negative element overhanging the bond markets is the prospective size of state and local government borrowings. These entities, in an attempt to cope with the challenges of recession, reduced Federal grants and escalating costs, will probably have little choice but to either increase taxes, scale back significantly the provision of both essential and nonessential services or step up sharply short- and long-term financings. In any event, the emerging dilemma seems to suggest record state and local borrowings this year—which, in the absence of a similar-sized rise in investor demand, could keep municipal bond rates high—if not push them up further.

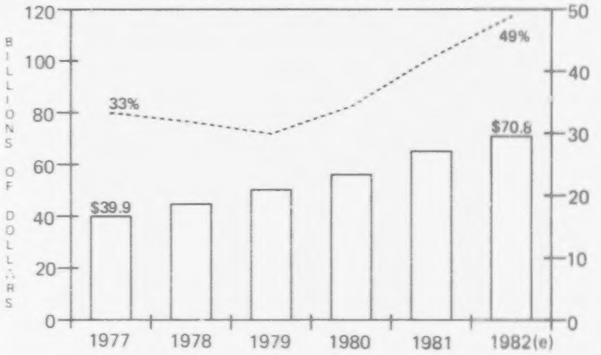
Unfortunately, widespread joblessness and rising costs have already resulted in the virtual disappearance of the operating budget surplus of state and local governments (which excludes the activities of their pension funds) in the fourth quarter, only magnifying the dilemma. Whereas this surplus totaled more than $10 billion just four years ago, providing a significant cushion against the adverse effects of economic downturns, it has since narrowed sharply—to an estimated $400 million in the fourth quarter of 1981, and may well slip into deficit this quarter.

CHART I
NEW MUNICIPAL BOND ISSUANCE (BAR) VS.
BBI AS A % OF COMPOSITE AA UTILITY RATE (DOT)



In response, local government borrowings have already begun to soar. New bond issues totaled almost $13 billion in the fourth quarter of 1981, 26 per cent higher than year-earlier levels; in 1982 they could reach as high as $50 billion—a record high.

CHART II
TOTAL DIVIDENDS PAID (BAR) VS.
DIVIDEND PAY-OUT RATIO (DOT)



The upturn in financing needs comes at an inopportune time. Most important, the supply-demand balance suggests falling bond prices and rising yields. Although new issue volume is soaring, such traditional institutional purchasers of municipal bonds as property insurance companies and commercial banks are expected to be relatively small net demanders of new offerings in 1982. Cash flow difficulties are expected to continue to plague many property insurance companies this year, limiting their ability to take down a significant amount of new municipal offerings, while commercial banks are also expected to be relatively unenthusiastic net purchasers of municipal bonds.

. . . The Financial Outlook Is Dim

This leaves much of the financing burden to be shouldered by households. But in order to attract individual investors at a time when bond market volatility in general and perceptions of credit risk in particular have diminished the attractiveness of bonds, yields have had to move higher. The Bond Buyer Index of 20 Municipals, for example, soared to 13.13 per cent during the week ending February 4, one of its highest levels ever. This trend,

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in turn, has resulted in a sharp narrowing of the yield differential between tax-exempts and taxables. The differential between the Bond Buyer Index (largely double- and single-A rated municipals) and composite double-A utility yields narrowed to one of its lowest points in a decade by late 1981; as shown in Chart I, tax-exempt yields now stand at almost 75 per cent of taxable yields and could approach 80 per cent in 1982.

Whether this convergence of rates will eventually set the stage for some price rebound in the tax-exempt area remains unclear. In the interim, however, swelling credit needs and lackluster investor demand for long-term bonds have forced many municipalities to shift their financings into the short-term note market. With investor interest greater and yields lower, borrowings in this segment of the municipal market in fourth-quarter 1981 rose almost 80 per cent above year-earlier levels—indicative of the hopes of many municipalities that the disarray in the longer-term markets is only temporary, and that long-term finance can eventually be secured.

And For Corporate America . . .

State and local governments are not the only entities experiencing significant difficulties in securing long-term finance at reasonable cost. The inability of U.S. corporations to generate strong earnings

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/27/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	135.246	+ .288	+ 9.519
Loans to Depository Inst.	2.417	+ 1.521	+ .678
Float	3.358	− 3.336	+ .123
Total Reserve Bank Credit	150.877	− 1.294	+10.685
Treasury Deposits with Federal Reserve Banks	6.147	+ 2.435	+ 2.649
Currency Outside Banks	123.699	− 1.497	+ 6.765
Member Bank Reserves:			
Required	42.703	− 1.579	+ 2.052
Excess (Deficiency)	− .070	− .466	− .470
Total Reserves Held	42.633	− 2.045	+ 1.582
Net Borrowed Reserves	2.445	+ 1.961	+ 1.189
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.533	+ .103	+ 2.506

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	447.6	+ 14.3‡	+ 6.9‡
M2 (December '81)	1,841.2	+ 12.2	+ 10.3
M3 (December '81)	2,187.2	+ 10.0	+ 11.3
L (September '81)	2,574.4	+ 11.4	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/5/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.15%	13.20%	12.85%
* Federal Agencies	13.90	14.55	14.79
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	13.70	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.35	15.40	15.75

‡ Finance Company Paper—Prime	
5- 14 days	14.63%
15- 29 days	14.88
30- 59 days	14.75
60- 89 days	13.50
90-179 days	13.25
180-239 days	13.25
240-270 days	13.25

‡* Bankers' Acceptances	
Mar.	14.70%
Apr.	14.60
May	14.50
Jun.	14.40
Jul.	14.20
Aug.	14.10

‡ Industrial Paper—Prime	
30- 89 days	14.75%
90-120 days	14.63

† Federal Funds Effective Rate 15.25%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	− 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81	4.8%	6.0%	12.0%
Change in Producer Prices*	Dec '81	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons) †	Jan '82n	99,581	99,613	97,696
Unemployment as % of Civilian Labor Force †	Jan '82n	8.5%	8.8%	7.4%
Personal Income	Dec '81	$ 2,492	$ 2,488	$ 2,277
Leading Indicators Composite Index (1967=100) †	Dec '81	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Dec '81	143.3	146.4	150.4
Net Change in Consumer Installment Credit †	Nov '81	$ 0.34	$ 1.01	$ 0.84
U.S. Merchandise Trade Balance †	Dec '81n	−$ 0.70	−$ 3.40	−$ 2.19
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Dec '81	978	863	1,535
New Construction Expenditures*	Dec '81n	$ 229.3	$ 231.6	$ 245.4
Total Business Inventories†	Nov '81	$ 515.2	$ 511.7	$ 474.9
Total Business Sales†	Nov '81	$ 344.6	$ 345.3	$ 339.0

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

growth in light of slumping productivity and escalating costs has ensured that internally-generated funds continue to fall far short of capital spending. And when you consider that the quality of after-tax earnings has exhibited little improvement, as corporations continue to post sizable gains in inventory profits and run inadequate depreciation allowances, a rather sizable financing gap emerges which must be bridged by external borrowings.

But with the bond markets in disarray, short-term credit has had to fill a good-sized proportion of corporate financing needs. Since mid-1978, for example, commercial and industrial loans outstanding at large weekly reporting banks have increased by almost $65 billion while commercial paper issuance by nonfinancial corporations, an alternative to bank loans for some, has risen by $37 billion. And, with short-term interest rates reaching historic highs during this period, it is hardly surprising that many key indicators of corporate financial health have deteriorated.

One measure of liquidity, the ratio of short-term to total liabilities, rose from 36 per cent in 1978 to 42 per cent in the third quarter of 1981 (the latest data available), a record high. The debt service burden also rose sharply during the period, with the percentage of gross internal funds required to service existing debt rising from approximately 26 per cent

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/20/82)	133,454	+ 432	+19,285
New York City (1/20/82)	32,670	− 95	+ 3,376
Commercial Paper (1/20/82)	166,029	+ 1,153	+36,286

Bank Loans
(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/20/82)	194,836	+ 190	+22,482
New York City (1/20/82)	55,468	+ 189	+ 4,386

	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/20/82)	466,150	− 2,524	+36,739
New York City (1/20/82)	108,819	− 1,540	+ 7,459

Financial Markets

	Friday 2/5/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.38%	+ .98	− 1.72
180-Day Bills†	14.78	+ .98	− .72
Longest Bills†	14.73	+ .53	+ .18
Recent Issues:			
15s 1/31/84	14.97	+ .42	
14 1/8s 12/31/85	14.76	+ .36	
14 5/8s 2/15/92 (When Issued)	14.70	NA	
14s 11/15/11	14.59	+ .54	
Municipals:			
Bond Buyer—20 Bond Index* (2/4/82)	13.13%	− .02	+ 3.23
Blue List Total ($ Million)	$ 847	+ $ 45	+ $ 240
30-Day Visible Supply ($ Million)	$1,570	+ $185	− $ 748
Total	$2,417	+ $230	− $ 508
Corporates:			
Moody's Aa Composite (2/4/82)	15.80%	+ .01	+ 2.08
30-Day Visible Supply ($ Million)	$9,392	+ $475	+ $5,449
Stocks:			
Dow-Jones Averages:			
Industrials	851.03	− 20.07	− 101.27
Transportation	357.17	+ 1.03	− 51.47
Utilities	106.95	− .56	− 5.25
65 Stocks	335.03	− 4.20	− 37.98
Standard and Poor's 500 Stocks	117.26	− 3.14	− 13.34
N.Y.S.E. Composite Index	67.79	− 1.60	− 7.04
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,868	− 5,870	+ 4,484

* 46% Taxable equivalent 24.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/5/82	Week Ago
Overnight	15.38%	13.88%
1 month	15.50	14.13
3 month	15.63	14.50
6 month	15.75	15.00
1 year	15.75	15.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.99%	14.80%
Long Term (7 to 15 yrs.)	15.20	15.05

FOREIGN EXCHANGE SPOT RATES **New York Opening (2/5/82)**	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02507	39.89
Canada	.8296	1.2054
Denmark	.1309	7.6403
France	.1683	5.9425
Germany	.4278	2.3375
Italy	.0007995	1250.80
Japan	.004295	232.83
Mexico	.03728	26.825
Netherlands	.3902	2.5625
Switzerland	.5330	1.8763
U.K.	1.8670	.5356

in 1978 to 42 per cent in the third quarter of 1981.

. . . It's Not Much Better

Nor did this bleak picture, or corporate earnings performance, improve much in the fourth quarter. With the recession deepening, the profits slump worsened. Before-tax profits of nonfinancial corporations are estimated to have declined by more than 12 per cent compared with quarter-earlier levels, while after-tax profits are estimated to have skidded by about 11 per cent during the period.

But despite probable double-digit profit declines in late 1981, dividend payments continued to surge. Cash distributions rose to an almost $70 billion seasonally adjusted annual rate in the fourth quarter, and reached about $65 billion for the year as a whole. This total was $9 billion higher than cash payouts in 1980 and about $15 billion higher than in 1979—a year in which after-tax profits were about $20 billion greater than now. As a result, the dividend payout ratio, which relates dividends and after-tax corporate profits, exceeded 42 per cent in 1981, its highest level since 1971 (see Chart II on page 1).

If, however, corporate earnings in 1982 slump further and corporations continue to boost, or even maintain, existing dividend payments, the dividend payout ratio could reach as high as 49 per cent this year—placing another heavy strain on corporate balance sheets. Already, many companies have chosen to cut back dividend distributions in an attempt to boost retained earnings. This development, if it becomes widespread, would ensure that not only the bond markets, but also the equities markets will experience significant difficulties in launching sustained price advances in 1982. H

THE CORPORATE TRUSTEE ENDURANCE TEST.

DURABILITY:
When picking a corporate trustee for a bond issue—whether you're a corporation or municipality—pick carefully. Because you're going to have to live with that trustee a long time.

Manufacturers Hanover is one of the nation's largest and most experienced bond trustees. We have the expertise to anticipate problems before you even close the issue. By identifying trouble spots early, everything will run more smoothly. Year after year.

SUREFOOTEDNESS:
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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

THURSDAY, FEBRUARY 11, 1982

VOLUME XIX, NUMBER 7

For The Labor Market . . .

One of the more distressing symptoms of the current economic downturn is the sharp deterioration of labor market conditions. Whereas the unemployment rate stood at a seasonally adjusted 7.2 per cent of the labor force last July, by yearend it had spiked upward to 8.8 per cent—just a shade below the postwar peak of nine per cent recorded in 1975. What is more, labor market conditions continued to weaken in January, reflecting declines in both total employment and the average workweek as well as a further rise in the actual number of unemployed, unadjusted for seasonal changes.

In January, total employment dropped slightly month-over-month, and now stands at a seasonally adjusted 99.6 million workers. At the same time, however, the number of unemployed persons fell by a seasonally adjusted 273,000 during the month, largely the statistical by-product of adjusting for a smaller than usual rise in joblessness between December and January. This, in turn, reflected an almost equal sized decline in the civilian labor force—and a dip in the seasonally adjusted unemployment rate from 8.8 per cent in December to 8.5 per cent in January. Unfortunately, a look beneath the surface of this apparent improvement suggests the labor market is now in the eye, rather than at the end, of the storm.

The less than seasonal rise in the number of unemployed in January is, in itself, troublesome. Rather than being indicative of a firming of labor market conditions, it seems directly related to the opposite. The onset of severe winter weather conditions in many areas of the country undoubtedly discouraged many workers from actively seeking employment and, as a result, it is hardly coincidental that the number of people attempting to obtain jobs declined by more than 300,000. This development, in turn, produced a temporary contraction of the labor force—as well as the total number of unemployed. To be counted as unemployed, one has to be looking for work; if the number of persons actively seeking jobs had not contracted last month but had held steady, the unemployment rate would have remained at 8.8 per cent.

. . . The Calm Before The Storm

Nor was the artificial contraction of the labor force the only factor producing a lower-than-anticipated jobless total. It may also be attributable to a smaller than seasonal rise in employment the month before. For only the fourth time in the past 15 years, total employment (calculated on a seasonally adjusted basis) declined between November and December. What this suggests is that employers, faced with lackluster final sales and deteriorating economic conditions economy-wide, were extremely reluctant to add to their payrolls in December. As a result, with the number of temporary hires during the normally robust December holiday season well below normal, the number of dismissals in the weeks immediately following the holidays also did not reach seasonal expectations.

But perhaps more ominous with respect to future jobless rates were both the fourth consecutive monthly decline in total nonfarm employment and a steep plunge in the average workweek. Total nonfarm employment declined by a seasonally adjusted 237,000 persons in January to 90.9 million. This total has fallen nonstop since September and now stands about 1.5 per cent below its September peak. Job losses were distributed among a wide variety of industries, with the largest month-over-month declines occurring in the manufacturing (215,000) and construction (140,000) industries. As could be expected, while many of the job losses in manufac-

REAL INTEREST RATE DIFFERENTIALS

Country	3-month Eurocurrency Rate (as of 2/8/82)	—	Percent Change in CPI (Dec 81/Dec 80)	=	Real Interest Rate
United States	15.9		8.9		7.0
United Kingdom	14.6		12.1		2.5
France	15.8		14.0		1.8
Japan	6.6		5.0		1.6
Switzerland	8.4		6.6		1.8
West Germany	10.3		6.2		4.1
Canada	15.4		12.2		3.2

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turing were concentrated in the automobile and capital goods industries, they also included significant downturns in the textile and apparel industries. What is more, the outlook is even bleaker, for with industrial production and capacity utilization continuing to skid and numerous plant closings expected this month, this trend will not be reversed any time soon.

One leading indicator of future joblessness, the average workweek also continued to decline last month. The average workweek in all manufacturing industries dropped by a record 5.4 per cent month-over-month to 36.9 hours, one of the lowest levels ever. Since employers usually trim hours before payrolls, this development, although weather-related to some extent, can only presage a significant rise in the layoff rate in coming months. As if to confirm this grim outlook, initial claims for unemployment insurance rose to 591,000 workers during the week ending January 30, up almost 30 per cent compared with levels prevailing just two weeks earlier.

High Real Interest Rates . . .

Continuing high interest rates in the United States are widely recognized as the principal cause for the continued strength of the dollar against the currencies of its major trading partners. Other factors add to the dollar's strength, as well, such as falling inflation rates, a surplus in the current account and political stability. Underlying these favorable factors for the dollar has been less demand for

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/3/82	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	138.222	+ 2.976	+12.746
Loans to Depository Inst.	1.847	− .624	+ .646
Float	2.729	− .815	− .318
Total Reserve Bank Credit	152.863	+ 1.800	+13.231
Treasury Deposits with			
Federal Reserve Banks	7.863	+ 1.716	+ 4.575
Currency Outside Banks	123.677	− .021	+ 6.305
Member Bank Reserves:			
Required	42.332	− .371	+ 2.111
Excess (Deficiency)	.406	+ .290	+ .178
Total Reserves Held	42.738	− .081	+ 2.289
Net Borrowed Reserves	1.331	− .928	+ .483
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	92.265	− 3.268	− .816

Monetary Aggregates †		% Change Since Three Months Ago*	Year Ago
M1 (1/27/82)	447.6	+ 14.3‡	+ 6.9‡
M2 (December '81)	1,821.8	+ 9.8	+ 10.0
M3 (December '81)	2,187.5	+ 9.3	+ 11.4
L (September '81)	2,577.3	+ 11.3	+ 11.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 2/11/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.30%	13.75%	13.20%
* Federal Agencies	14.05	14.65	14.85
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.81	NA
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	15.65	15.75	16.38

‡ Finance Company Paper—Prime	
5- 14 days	15.13%
15- 29 days	15.13
30- 59 days	15.00
60- 89 days	14.50
90-179 days	14.00
180-239 days	14.00
240-270 days	14.00

‡* Bankers' Acceptances	
Mar.	15.00%
Apr.	14.90
May	14.85
Jun.	14.75
Jul.	14.60
Aug.	14.25

‡ Industrial Paper—Prime	
30- 89 days	15.13%
90-120 days	15.10

† Federal Funds Effective Rate 15.90%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	− 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81	4.8%	6.0%	12.0%
Change in Producer Prices*	Dec '81	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons) †	Jan '82	99,581	99,613	99,901
Unemployment as % of Civilian Labor Force †	Jan '82	8.5%	8.8%	7.4%
Personal Income	Dec '81	$ 2,492	$ 2,488	$ 2,277
Leading Indicators Composite index (1967=100) †	Dec '81	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Dec '81	143.3	146.4	150.4
Net Change in Consumer Installment Credit †	Dec '81n	−$ 0.17	$ 0.34	$ 1.62
U.S. Merchandise Trade Balance †	Dec '81	−$ 0.70	−$ 3.40	−$ 2.19
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Dec '81	978	863	1,535
New Construction Expenditures*	Dec '81	$ 229.3	$ 231.6	$ 245.4
Total Business Inventories †	Nov '81	$ 515.2	$ 511.7	$ 474.9
Total Business Sales †	Nov '81	$ 344.6	$ 345.3	$ 339.0

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

imports, particularly petroleum, which has reduced somewhat the outflow of dollars. Although the merchandise trade account (on the balance of payments basis) showed a slightly higher deficit ($27.8 billion) in 1981 than in 1980 ($25.3 billion) the percentage increase of 9.9 per cent was close to the 1981 inflation rate of 9.1 per cent (GNP deflator) indicating very little deterioration in the trade account in real terms.

The prospects for economic recovery in 1982 would appear at first glance to portend a growing weakness in the dollar. Most forecasters expect a decline in U.S. interest rates this year. Further, as economic activity increases, imports are expected to rise as well, leading to an increased outflow of dollars and a rising trade deficit. This, in turn, is expected to lead to a diminished current account surplus–or possibly a small deficit.

Yet such a scenario is by no means certain. U.S. interest rates in real terms still enjoy a substantial premium over those in other countries (see table on page 1). As interest rates rose in the United States over the past 18 months, other nations raised theirs as well in order to reduce the impact of the interest rate differential on their currencies' exchange rates against the dollar at the cost, in most cases, of skyrocketing unemployment and recession. As interest rates in the U.S. have declined foreign interest rates have fallen as well. It is likely that interest rates in Europe in particular will continue to

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/27/82)	135,462	+ 2,808	+19,462
New York City (1/27/82)	34,246	+ 1,576	+ 4,651
Commercial Paper (1/27/82)	167,014	+ 985	+37,519

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/27/82)	195,679	+ 828	+23,877
New York City (1/27/82)	55,359	– 109	+ 4,745
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/27/82)	466,223	– 199	+39,737
New York City (1/27/82)	108,647	– 172	+ 9,125

Financial Markets

	Thursday 2/11/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.83%	+ .45	– 1.49
180-Day Bills†	15.25	+ .47	– .90
Longest Bills†	15.25	+ .52	+ .24
Recent Issues:			
15s 1/31/84	15.02	+ .05	
14$^{1}/_{8}$s 12/31/85	14.94	+ .18	
14$^{5}/_{8}$s 2/15/92 (When Issued)	14.97	+ .27	
14s 11/15/11	14.60	+ .01	
Municipals:			
Bond Buyer–20 Bond Index*	13.09%	– .04	+ 3.10
Blue List Total ($ Million)	$ 773	– $ 74	+ $ 72
30-Day Visible Supply ($ Million)	$1,312	– $258	– $ 934
Total	$2,085	– $332	– $ 862
Corporates:			
Moody's Aa Composite (2/10/82)	15.82%	+ .02	+ 2.04
30-Day Visible Supply ($ Million)	$9,702	+ $310	+ $5,614
Stocks:			
Dow-Jones Averages:			
Industrials	834.67	– 16.36	– 96.90
Transportation	348.91	– 8.26	– 40.46
Utilities	105.16	– 1.79	– 2.95
65 Stocks	328.32	– 6.71	– 32.72
Standard and Poor's 500 Stocks	114.43	– 2.83	– 12.55
N.Y.S.E. Composite Index	66.11	– 1.68	– 6.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,178	– 690	+ 12,104

* 46% Taxable equivalent 24.24%.

† Bond equivalent.

International Rates

	Thursday 2/11/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	16.00%	15.38%
1 month	16.13	15.50
3 month	16.31	15.63
6 month	16.31	15.75
1 year	16.19	15.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.10%	14.99%
Long Term (7 to 15 yrs.)	15.30	15.20

FOREIGN EXCHANGE SPOT RATES New York Opening (2/11/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02486	40.23
Canada	.8251	1.2120
Denmark	.1293	7.7360
France	.1669	5.9925
Germany	.4235	2.3610
Italy	.0007923	1262.19
Japan	.004242	235.73
Mexico	.03733	26.785
Netherlands	.3860	2.5905
Switzerland	.6279	1.8943
U.K.	1.8520	.5400

decline; unemployment has become a political and social issue in many cases. Inflation, too, is easing in most countries but particularly rapidly in the United States. Finally, although most of the world's developed nations expect to show some real economic growth in 1982 it will be sluggish and sporadic in most instances. World trade will do well to grow by two per cent in volume terms this year. Hence, none of the major economic causes for a fundamental shift in exchange rate relationships appears to be in place.

. . . Will Keep The Dollar Strong

Although the real interest rates shown in the accompanying table are indicative of the current situation and are a typical example of the advantage which the U.S. has enjoyed in the last 18 months, they are also retrospective. The investor is concerned with the future. Since the beginning of this year U.S. interest rates have begun to edge upward again. In the same period the three-month Eurocurrency rates for all of the other countries shown on the table, except Canada, have fallen, suggesting the probability that monetary policies in those countries are easing. In the United States monetary policy is expected to remain tight. With prospects for the decline in the inflation rate in the U.S. to continue throughout the year, continued external demand for dollar-denominated assets appears to be good.

Toward the end of 1982 some improvement in the global economic environment may be expected to improve the export prospects of the major European nations and Japan which, combined with declining U.S. interest rates toward yearend, could result in a modest weakening of the dollar. For now, however, real interest rate differentials will continue to be the primary arbiter of the dollar's fate. H

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

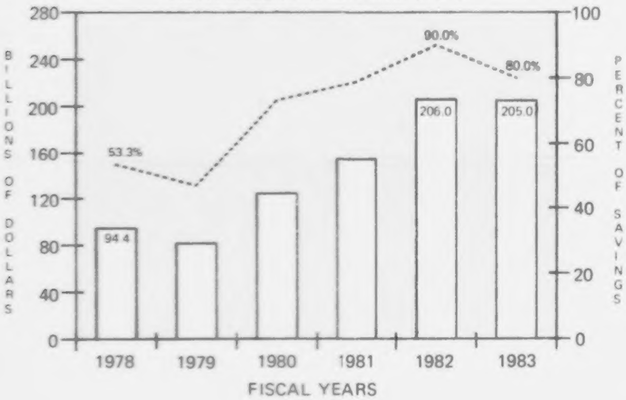
MONDAY. FEBRUARY 22. 1982

VOLUME XIX, NUMBER 8

While The Budget Outlook . . .

Despite recent Administration pronouncements that the adverse effects of massive Federal budget deficits have been overstated, prospects for an ever-larger hemorrhage of red ink from Washington are now among the biggest negatives overhanging the economy and the financial markets. This trend was clearly highlighted by the just-released budget estimates for fiscal 1983 and beyond, as well as subsequent market reaction. Although a dismal budget outlook had been widely anticipated, the dimensions of the fiscal 1983 document were staggering. It included a projected deficit of $92 billion in fiscal 1983 alone and a cumulative deficit of almost $500 billion during the fiscal 1982-87 period, the near certainty of a sharp clash between expansive fiscal and restrictive monetary policies, and, as a by-product of these trends, the further devastation of large segments of corporate America. Not surprisingly, interest rates continued to lurch upward, with the prime rate again reaching 17 per cent.

TOTAL FEDERAL BORROWING (BAR) VS.
TOTAL FEDERAL BORROWING
AS A PERCENT OF SAVINGS (DOT)



While the budget deficits projected by the Administration are damaging enough, they will probably never occur. Unless Congress cuts spending drastically or enhances tax receipts, the actual deficits will be much larger than estimated. This is due to a variety of contradictions, both within and outside the budget environment, which make it improbable that the Administration's economic assumptions—and therefore revenue and expenditure estimates—will ever be realized. One of the most important of these is that high rates of economic growth will occur annually well into the 1980s, and in the process boost revenues and dampen such recession-related outlays as extended unemployment insurance benefits.

In fiscal 1983, for example, the projected growth of nominal GNP is 11 per cent, an extremely robust rate of rise when viewed in light of the current monetary policy posture of the Federal Reserve. With the Fed seemingly determined to maintain both a restrictive monetary stance as well as its current operating procedures, such a strong economic upturn would, in all likelihood, soon prompt an equally robust upturn in money supply growth—and, quite possibly, cause some credit tightening actions by the central bank. But if, indeed, this did occur, then the pace of nominal GNP growth would be lower, the real growth rate would be dampened, rates of unemployment and interest would move higher and larger-than-estimated deficits would occur.

. . . Appears Dismal . . .

Thus, the first major budget dilemma—the conflict between "loose" fiscal and "tight" monetary policies—emerges. The Administration has projected a recession-proof economy which no longer exhibits its usual cyclical variation; rather, real economic growth remains high at least until 1987, while rates of unemployment, inflation and interest all trend lower. Although this would certainly be a welcome scenario, it is unlikely to occur.

For despite these optimistic Administration projections, the central bank appears much more cautious. Unless the Federal Reserve sharply boosts its 1983 and 1984 money supply growth targets to levels well above those now prevailing it appears likely that nominal GNP growth will be closer to eight rather than 11 per cent in 1983 and somewhat lower in 1984. As a result, with the projected course of the economy and budget incompatible with that of monetary policy, the validity of both the budget's economic assumptions and deficit estimates be-

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comes suspect. If, indeed, growth rates and tax receipts are lower than estimated while unemployment rates and outlays are higher, these factors alone, together with stepped-up defense spending and interest outlays, will produce a fiscal 1983 deficit well in excess of the $92 billion red ink total now forecast.

Nor do the budget estimates seem to allow the Administration much flexibility in bringing spending and revenue totals into better alignment with the likely course of the economy and monetary policy. On the spending side, for example, defense outlays—which are so far immune to cutbacks—are slated to soar from less than 25 per cent of overall budget expenditures in fiscal 1981 to almost 35 per cent by 1985—and total almost $1 trillion during the four-year period. Interest costs will also grow significantly as the size of the Federal debt balloons, even if interest rates do fall slightly, while Social Security payments will continue to rise as long as the rate of inflation remains positive and the nation's population ages. Although the Administration expects that these almost certain spending increases will be partially offset by entitlement reforms (in such areas as Medicare and food stamps) as well as other non-defense spending cuts, this is, as of now, by no means certain—especially in a Congressional election year.

. . . A Variety Of Apparent Contradictions . . .

On the receipts side, in contrast, proposals for new tax increases are almost nonexistent, so it appears

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/10/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	134.128	– 4.094	+ 9.532
Loans to Depository Inst.	1.664	– .183	+ .551
Float	3.244	+ .519	– .194
Total Reserve Bank Credit	148.704	– 4.153	+ 9.159
Treasury Deposits with			
Federal Reserve Banks	5.319	– 2.544	+ 1.393
Currency Outside Banks	124.631	+ .963	+ 6.557
Member Bank Reserves:			
Required	40.531	– 1.801	+ 1.605
Excess (Deficiency)	.203	– .203	+ .033
Total Reserves Held	40.734	– 2.004	+ 1.638
Net Borrowed Reserves	1.347	+ .016	+ .535
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	96.024	– 3.759	+ 2.579

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	446.3	+ 12.7‡	+ 7.1‡
M2 (January '82)	1,839.3	+ 11.2	+ 10.4
M3 (January '82)	2,203.3	+ 9.7	+ 11.0
L (October '81)	2,598.2	+ 10.7	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/19/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.30%	13.40%	13.00%
* Federal Agencies	14.55	15.05	14.70
* Project Notes—Taxfree (46% Taxable Equivalent)	14.35	14.81	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.20	15.20	16.00

‡Finance Company Paper—Prime	
5- 14 days	14.00%
15- 29 days	14.13
30- 59 days	14.38
60- 89 days	13.88
90-179 days	14.25
180-239 days	14.00
240-270 days	14.00

‡* Bankers' Acceptances	
Mar.	14.55%
Apr.	14.40
May	14.30
Jun.	14.20
Jul.	14.00
Aug.	13.80

‡Industrial Paper—Prime	
30- 89 days	14.63%
90-120 days	14.63

†Federal Funds Effective Rate 14.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,985	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,496	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 5.2	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Dec '81	4.8%	6.0%	12.0%
Change in Producer Prices*	Jan '82n	4.8%	3.6%	14.4%
Civilian Employment (Thousands of Persons)†	Jan '82	99,581	99,613	99,901
Unemployment as % of Civilian Labor Force†	Jan '82	8.5%	8.8%	7.4%
Personal Income*	Jan '82n	$ 2,495	$ 2,491	$ 2,301
Leading Indicators Composite Index (1967=100)†	Dec '81	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Jan '82n	139.1	143.4	151.4
Net Change in Consumer Installment Credit†	Dec '81	–$ 0.17	$ 0.34	$ 1.62
U.S. Merchandise Trade Balance †	Dec '81	–$ 0.70	–$ 3.40	–$ 2.19
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Jan '82n	894	899	1,585
New Construction Expenditures*	Dec '81	$ 229.3	$ 231.6	$ 245.4
Total Business Inventories†	Dec '81n	$ 513.1	$ 515.2	$ 475.2
Total Business Sales†	Dec '81n	$ 343.3	$ 345.2	$ 343.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

unlikely that, in the absence of rapid economic growth, a sizable upturn in revenues can be counted upon to help narrow the budget gap. In fact, additional user fees (such as recreation fees at national parks), management initiatives (expanding the staff of the Internal Revenue Service) and tax revisions are expected to enhance revenues by only $30 billion in fiscal 1983—a paltry 4.5 per cent of total anticipated receipts and not all of which can be implemented without Congressional approval. And, with the Administration adamantly opposed to either scaling back or postponing the already legislated personal and business tax cuts, the second major budget dilemma emerges. This arises from the fact that even if the economy does somehow manage to escape the hammerlock of a tight monetary policy and perform as well as the Administration hopes, the budget deficits will still be staggering—and much larger than estimated because of the near certainty of large spending increases for defense, interest costs and income security, while anticipated expenditure reductions and revenue enhancements are, at best, uncertain and, at worst, unlikely.

Although the ultimate size of the fiscal 1983 deficit as well as those of subsequent years is unknown, it is certain that deficits as large as now projected could have a devastating impact upon corporate America. Sustained "crowding out" pressures would prevail in the financial markets well into the future, since the savings generated by the tax reductions

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/3/82)	135,383	– 98	+20,625
New York City (2/3/82)	35,205	+ 959	+ 5,970
Commercial Paper (2/3/82)	166,467	– 547	+37,292

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/3/82)	197,915	+ 2,196	+25,584
New York City (2/3/82)	56,349	+ 990	+ 5,504

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/3/82)	470,410	+ 4,178	+43,136
New York City (2/3/82)	110,967	+ 2,320	+ 9,979

Financial Markets

	Friday 2/19/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.70%	– 1.13	– .38
180-Day Bills†	14.34	– .91	+ .92
Longest Bills†	15.04	– .21	+ 2.48
Recent Issues:			
15⅛s 2/29/84 (When Issued)	15.10	NA	
14⅛s 12/31/85	14.22	– .72	
14⅝s 2/15/92	14.00	– .97	
14s 11/15/11	13.92	– .68	
Municipals:			
Bond Buyer—20 Bond Index* (2/18/82)	12.96%	– .13	+ 2.74
Blue List Total ($ Million)	$ 755	– $ 18	+ $ 40
30-Day Visible Supply ($ Million)	$1,437	+ $125	– $ 797
Total	$2,192	+ $107	– $ 757
Corporates:			
Moody's Aa Composite (2/18/82)	15.71%	– .11	+ 1.69
30-Day Visible Supply ($ Million)	$9,412	– $290	+ $4,865
Stocks:			
Dow-Jones Averages:			
Industrials	824.30	– 10.37	– 111.79
Transportation	343.13	– 5.78	– 36.05
Utilities	104.91	– .25	– 2.36
65 Stocks	324.34	– 3.98	– 34.25
Standard and Poor's 500 Stocks	113.22	– 1.21	– 13.36
N.Y.S.E. Composite Index	65.43	– .68	– 7.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,234	+ 56	+ 10,068

* 46% Taxable equivalent 24.00%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/19/82	Week Ago
Overnight	15.00%	16.00%
1 month	15.50	16.13
3 month	15.63	16.31
6 month	15.69	16.31
1 year	15.50	16.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.95%	15.10%
Long Term (7 to 15 yrs.)	15.10	15.30

FOREIGN EXCHANGE SPOT RATES New York Opening (2/19/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02486	40.23
Canada	.8237	1.2141
Denmark	.1291	7.7435
France	.1668	5.9950
Germany	.4242	2.3573
Italy	.0007932	1260.70
Japan	.004305	232.28
Mexico	.02625	38.10
Netherlands	.3862	2.5895
Switzerland	.5321	1.8793
U.K.	1.8590	.5379

alone will simply not be enough to finance the projected Federal deficits.

During the fiscal 1982-84 period, for example, the cumulative deficit could reach $275 billion, with associated Treasury borrowings—both new and rollover—of about $350 billion. While this borrowing requirement would be offset in part by increased savings arising from already legislated tax reductions, it is unrealistic to expect that all, or even most, of the $270 billion to be returned to the private sector between fiscal years 1982-84 will be used to absorb the new Treasury offerings. If all these funds were saved and fully invested in Treasury securities, they would still be insufficient to finance the projected deficits. Since both of these assumptions are unrealistic, the financial markets will continue to be subjected to an ever-growing glut of Treasury securities.

In fact, it is possible that Federal and Federal-related borrowings will absorb as much as 90 per cent of the net national savings in fiscal 1982, a new record high, and approximately 80 per cent of net savings in fiscal 1983. Even when expressed as a percentage of gross national product the outlook is dismal, with total Federal and Federal-related borrowings reaching a postwar record of 6.6 per cent of GNP this year and remaining at about the same level next year. (See chart on page 1.)

. . . Makes It Even Worse

Thus, while financial market stability would seem to require that households in particular will have to save more from current income, this development, if it does occur, would produce the third major dilemma. For even if restrictive monetary policy does not forestall rapid economic growth and the economy does behave as the Administration anticipates, an abrupt upswing in household savings, while providing partially the means to finance the projected deficits, would ultimately widen them by dooming any hopes of a consumer-led economic recovery.

The near-term savings dilemma will, in fact, haunt the budget preparers well into the future. If households do cut back spending and step up savings, they limit economic growth and swell the deficits. If they do not, a limited recovery may get under way, but it will soon be choked off by the interest rate effects of rising credit demands and a restrictive monetary policy—swelling the deficits anyway. Either way, the economy loses, emphasizing once again that massive Federal deficits and monetary restraint are compatible with one another only as long as the private sector remains flat on its back.

Is there any way out of this dilemma? By the Administration's own estimates, the Economic Recovery Tax Act of 1981 will reduce personal income tax receipts by approximately $28 billion in fiscal 1982, $75 billion in fiscal 1983 and $113 billion in fiscal 1984. This suggests that restoring just the revenues lost as a result of the personal income tax cuts would go a long way toward achieving Federal financial health. The fiscal 1983 budget deficit, for example, would narrow from the now projected $92 billion to just $17 billion, while a sizable budget surplus of more than $30 billion could be registered in fiscal 1984. Such a course of action would go a long way toward dampening inflation expectations and financial market volatility—as well as bring the economy back from the brink of unparalleled fiscal excess. ■

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

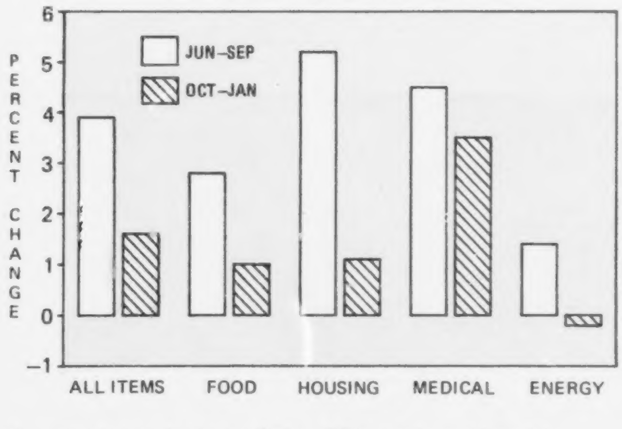
MONDAY, MARCH 1, 1982
VOLUME XIX, NUMBER 9

For Consumer Prices . . .

One of the more favorable economic developments occurring in recent months – if not the only one – has been the marked deceleration in the rate of inflation. This trend continued in January. The consumer price index (CPI) rose a seasonally adjusted 0.3 per cent during the month, following an increase of 0.4 per cent in December and 0.5 per cent in November. In the past four months, the CPI has advanced at a seasonally adjusted annual rate just a shade below five per cent – sharply lower than the almost 12 per cent rate of rise posted during the four months ending September 30. What is more, a variety of factors points toward moderate rates of inflation well into the future, although probably not as low as those of recent months.

The upward movement of several of the most important components of the index has, in many instances, virtually ceased—with some items even declining. As shown in the chart, the most pronounced slowing in the rate of price advance during the October-January period has been in precisely those areas which, in the past, have contributed to the steep escalation of the CPI, such as housing, energy and food prices. And while much of the balance of the improved inflation rate performance is undoubtedly due to the price "benefits" of recession, together these have become the necessary first step in bringing down the "core" rate of inflation, determined by the long-term relationship between wages and productivity. With expectations high that the good inflation news of 1981 and early 1982 can be carried over into wage settlements and cost-of-living adjustments this year, it is increasingly likely that the underlying rate of inflation can be reduced further.

THE CONSUMER PRICE INDEX AND SELECTED COMPONENTS
(FOUR-MONTH PERCENT CHANGES)



But, for now, the partial unwinding of the steep escalation of energy prices and housing costs has been largely responsible for the improved price performance. With the worldwide oil glut becoming more pronounced each day, major OPEC and non-OPEC oil producers slashing export prices and domestic refiners attempting frantically to move still sizable oil inventories, the rise in energy prices has ceased. Motor gasoline prices, for example, have been ratcheting downward since reaching their peak in March, 1981; in January, they stood almost 3.5 per cent below that peak. Similarly, residential heating oil prices have remained flat, despite severe winter weather conditions in many areas of the country. As a result, energy prices, as measured by the CPI, actually declined 0.2 per cent during the October-January months, an exceedingly sharp turnaround when compared with the almost 1.5 per cent rise posted during the immediately preceding four months.

The leveling off of housing costs—the largest component of the CPI—was also a major contributor to the slowing of the rate of inflation. With home prices soggy due to the ongoing crisis in mortgage finance, it is hardly surprising that the home purchase component of the CPI has drifted downward since September, and declined 0.4 per cent in January alone. Even financing costs have held relatively steady in recent months, largely reflecting some moderation in the upward spiral of mortgage interest rates.

. . . More Good News . . .

Rising by almost 10 per cent during the June-September months—and responsible alone for about one-third of the overall rise in the index during the period—financing costs edged up by less than one

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per cent in the subsequent four months. Nor is any quick turnaround of these trends in sight. Home prices will undoubtedly remain flat as long as mortgage interest rates remain at, or near, today's levels. For their part, mortgage interest rates are unlikely to rise sharply again (thus contributing to an increase in housing costs) as long as inflation psychology remains dormant.

The moderation of energy and housing costs was, however, partially offset by an abrupt upturn in food prices. They rose 0.7 per cent in January, following a 0.1 per cent increase in December. The jump in food prices was largely due to the recent severe winter weather conditions in many areas of the country (which damaged fruit and vegetable crops) and will probably be of limited duration. The onset of milder weather conditions should help prevent any additional damage to crops, which, in turn, could indicate that the worst of the food price bulge may be over. Indeed, the spot price index for foodstuffs has already begun to decline again—falling for three consecutive weeks, after peaking in late January.

Medical costs are still climbing swiftly. In January, they rose 0.8 per cent, following a 0.7 per cent month-over-month rise in December. Medical care is now the fastest rising component of the price index, advancing at a seasonally adjusted annual rate of almost 11 per cent during the four months ending January 31. Although this rate of rise was

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/17/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	136.683	+ 2.555	+10.596
Loans to Depository Inst.	1.908	+ .244	+ .763
Float	2.539	– .679	– 1.206
Total Reserve Bank Credit	151.146	+ 2.468	+ 9.865
Treasury Deposits with Federal Reserve Banks	4.568	– .751	+ 1.736
Currency Outside Banks	126.001	+ 1.375	+ 6.156
Member Bank Reserves:			
Required	41.457	+ .926	+ 1.697
Excess (Deficiency)	.677	+ .500	+ .379
Total Reserves Held	42.134	+ 1.426	+ 2.076
Net Borrowed Reserves	+ 1.097	– .276	+ .404
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.641	– 2.383	– .443

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	447.7	+ 11.7‡	+ 7.0‡
M2 (January '82)	1,839.8	+ 11.3	+ 10.5
M3 (January '82)	2,203.7	+ 9.8	+ 11.1
L (October '81)	2,598.2	+ 10.7	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 2/26/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.20%	12.75%	12.50%
* Federal Agencies	12.85	13.85	13.75
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.25	14.50	15.38

‡Finance Company Paper—Prime	
5- 14 days	13.13%
15- 29 days	13.38
30- 59 days	13.38
60- 89 days	12.88
90-179 days	12.88
180-239 days	12.88
240-270 days	12.88

‡* Bankers' Acceptances	
Mar.	13.40%
Apr.	13.40
May	13.45
Jun.	13.45
Jul.	13.45
Aug.	13.30

‡Industrial Paper—Prime	
30- 89 days	13.50%
90-120 days	13.50

†Federal Funds Effective Rate 13.65%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,995	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 4.7	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan '82n	3.6%	4.8%	9.6%
Change in Producer Prices*	Jan '82	4.8%	3.6%	14.4%
Civilian Employment (Thousands of Persons)†	Jan '82	99,581	99,613	99,901
Unemployment as % of Civilian Labor Force†	Jan '82	8.5%	8.8%	7.4%
Personal Income*	Jan. '82	$ 2,495	$ 2,491	$ 2,301
Leading Indicators Composite Index (1967=100)†	Dec '81	129.4	128.6	136.4
Industrial Production Index (1967=100) †	Jan '82	139.1	143.4	151.4
Net Change in Consumer Installment Credit†	Dec '81	–$ 0.17	$ 0.34	$ 1.62
U.S. Merchandise Trade Balance †	Dec '81	–$ 0.70	–$ 3.40	–$ 2.19
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Jan '82	894	899	1,585
New Construction Expenditures*	Dec '81	$ 229.3	$ 231.6	$ 245.4
Total Business Inventories†	Dec '81	$ 513.1	$ 515.2	$ 475.2
Total Business Sales†	Dec '81	$ 343.3	$ 345.2	$ 343.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

slightly lower than that posted during the preceding four months, medical costs have still soared by more than 12 per cent over the past year. In fact, the combination of rising medical, food and other service costs will continue to provide some upward thrust to the CPI, but not enough to push up the index significantly faster. Their impact will continue to be largely offset by the dampening effects of declining energy prices and virtually flat housing costs.

. . . But Not Yet For The Budget

Although the moderation in the rate of consumer price inflation was certainly welcome, it will not be sufficient in the near term to assuage the financial markets, thus bringing interest rates noticeably lower. One prerequisite for this to occur would be some good news on the budget and, as of yet, little has been offered. It is true that, according to the Treasury Department, the Federal budget posted a $9.34 billion surplus in January, a sizable turnaround compared with the $19.47 billion deficit registered in the preceding month. But it is also true that this black ink total was largely due to the mailing of January Social Security checks in December, rather than any fundamental improvement of Federal finances.

Still, the fiscal year to date red ink total now stands at "only" $38.9 billion. This is more than $1 billion below the deficit posted during the same period of fiscal 1981. Then, both the economy and the rate

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/10/82)	134,235	– 1,148	+21,190
New York City (2/10/82)	34,559	– 646	+ 6,330
Commercial Paper (2/10/82)	168,068	+ 1,895	+37,082

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/10/82)	198,024	+ 15	+27,480
New York City (2/10/82)	56,031	– 318	+ 6,247

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/10/82)	468,142	– 2,268	+44,464
New York City (2/10/82)	109,036	– 1,931	+ 9,473

Financial Markets

	Friday 2/26/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.85%	– .85	– 2.05
180-Day Bills†	13.95	– .39	– 1.04
Longest Bills†	14.10	– .94	– .36
Recent Issues:			
15 1/8s 2/29/84	14.35	– .75	
14 1/8s 12/31/85	14.20	– .32	
14 5/8s 2/15/92	13.99	– .01	
14s 11/15/11	13.80	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (2/25/82)	12.70%	– .26	+ 2.43
Blue List Total ($ Million)	$ 802	+ $ 47	+ $ 1
30-Day Visible Supply ($ Million)	$1,790	+ $353	– $ 197
Total	$2,592	+ $400	– $ 196
Corporates:			
Moody's Aa Composite (2/25/82)	15.46%	– .25	+ 1.39
30-Day Visible Supply ($ Million)	$9,537	+ $125	+ $5,849
Stocks:			
Dow-Jones Averages:			
Industrials	824.39	+ .09	– 150.19
Transportation	336.38	– 6.75	– 55.96
Utilities	107.23	+ 2.32	+ .80
65 Stocks	323.54	– .80	– 46.49
Standard and Poor's 500 Stocks	113.11	– .11	– 18.16
N.Y.S.E. Composite Index	65.33	– .10	– 9.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	56,242	+ 7,008	+ 7,520

* 46% Taxable equivalent 23.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/26/82	Week Ago
Overnight	13.38%	15.00%
1 month	14.50	15.50
3 month	14.88	15.63
6 month	15.00	15.69
1 year	15.00	15.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	14.95%
Long Term (7 to 15 yrs.)	14.90	15.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/26/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02284	43.78
Canada	.8148	1.2273
Denmark	.1257	7.9550
France	.1646	6.0750
Germany	.4194	2.3845
Italy	.0007812	1280.10
Japan	.004216	237.18
Mexico	.02312	43.25
Netherlands	.3824	2.6150
Switzerland	.5284	1.8925
U.K.	1.8165	.5508

of inflation were rising vigorously, thus boosting revenues and dampening counter-cyclical expenditures. What is more, taxes were cut, thus reducing revenues at the start of fiscal 1982.

This result can have two interpretations. First, it is possible that the fiscal 1982 deficit will be well below the projected $99 billion. Indeed, if the past is any guide, a continuation of the trends of the first four months of the fiscal year would result in a full year deficit of approximately $55 billion. And, with revenues still holding up surprisingly well despite the weak economy and lower rates of inflation, the possibility of a narrower deficit than now estimated cannot be totally dismissed.

Unfortunately, this year is probably going to be very different than others—especially if the rate of unemployment rises sharply in coming months and the 10 per cent across-the-board cut in personal income taxes takes effect on July 1, as scheduled. As a result, a second interpretation is more likely: This period is the calm before the storm. For if a $99 billion red ink total is, indeed, in store for this year, then a deficit of $60 billion will be recorded over the next eight months. This red ink total would be 3½ times the size of the deficit posted during the final eight months of fiscal 1981 ($17.5 billion)—which, although a period of relatively modest Treasury borrowings, was still characterized by substantial financial market turbulence.

Thus, if the deficit does triple between now and September compared with year-ago levels, the Treasury will be a major net demander of funds during the second and third calendar quarters. During this period in 1981, there was a net paydown of Treasury debt in the second quarter while about $23 billion of net new cash was raised in the third quarter. This suggests that Treasury financing requirements could be soaring at precisely the same time that the private economy is expected to attempt a modest revival—enhancing the likelihood that public and private sector borrowing requirements will clash, interest rates will again rise sharply—and any nascent economic rebound will be choked off. H

monetary muscle

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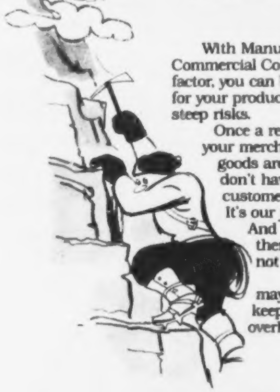

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 8, 1982

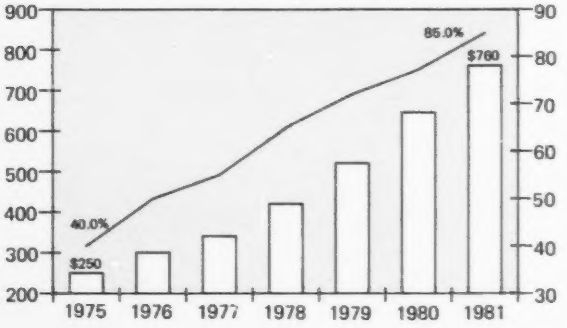
VOLUME XIX, NUMBER 10

Whatever Happened . . .

Although some economists expected that the pace of economic activity would be expanding vigorously by early spring, these hopes have all but vanished. With housing and automobiles still flat on their backs, capital spending dampened by lofty interest rates and export prospects dimmed by soggy business conditions abroad, suggestions of imminent recovery have been replaced by comments to the contrary. Supporting this is the latest reading of the leading economic indicators, which declined in January by 0.6 per cent—their ninth consecutive monthly drop. Similarly, the index of coincident economic indicators—which moves in tandem with economic activity—fell in January by 1.6 per cent month-over-month, the steepest slide since the current recession began.

These indicators suggest that not only is the economy still contracting, but also that recovery is at best several months away. However, the momentum to escape the doldrums of past recessions, which has often been provided by stepped-up consumer spending for such big-ticket items as housing and automobiles, is unlikely to occur this time around. This is because of a formidable obstacle to a sustained turnaround in both the new home and new automobile markets: affordability.

MONTHLY PRINCIPAL AND INTEREST PAYMENT REQUIRED FOR NEW HOME PURCHASE (BAR) VS. % OF HOUSEHOLDS EXCLUDED FROM MARKET (LINE)



With mortgage interest rates hovering near the 17.50 per cent zone and the median sales price of new single-family homes sold standing at $68,600 in December, 1981, a sizable proportion of households remains priced out of the new home market. Assuming a down payment of approximately 25 per cent on the median-priced new home, principal and interest payments on a 25-year conventional mortgage contracted at 17.50 per cent would total about $760 per month, absorbing more than 40 per cent of gross median family income. Seven years ago, at the conclusion of the 1973-1975 recession, average mortgage interest rates stood just a shade above nine per cent and the median-priced new home at $38,800. As a result, principal and interest payments totaled only $250 per month, absorbing approximately 25 per cent of median household income—the usual upper limit beyond which a buyer no longer qualifies for a mortgage.

. . . To Signs . . .

Taking into account this rule of thumb that monthly mortgage payments should not exceed one-fourth of a household's monthly gross income, approximately 85 per cent of all households are now unable to afford the mortgage associated with the median-priced new home. This compares with the exclusion of only 40 per cent of all households from the new home market at the end of the 1973-75 recession (see chart).

What is more, when taxes and insurance are added to mortgage debt service, the proportion of those excluded from the new home market rises even further, especially in areas of lofty property taxes. This suggests that, as of now, only the most financially well-endowed can comfortably afford the purchase of a new home. Not surprisingly, new single-family homes were sold at a seasonally adjusted annual rate of only 353,000 units in January, a sizable 35 per cent below year-earlier levels and the second lowest level on record.

. . . That Recession Was Ending . . .

Since chances of new home construction prompting an economic rebound are just about nonexistent, what about automobiles? Here, too, prospects are dim for a robust turnaround anytime soon. As with mortgage payments, the combination of rising unit prices and interest rates has exacted a heavy toll on sales and output. But unlike mortgage payments, the

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escalation of monthly automobile payments has been primarily due to the steep rise in sales prices. For example, the average price of a new automobile sold in the United States in 1981 was close to $9,000. After a typical down payment of 25 per cent, principal and interest payments on a three-year auto loan contracted at 17.50 per cent (fourth quarter, 1981 average) totaled about $240 per month—absorbing slightly less than 15 per cent of gross median household income. In 1975, when the average sales price of an automobile was about $4,750 and the average auto loan rate 11.25 per cent, principal and interest, after a 25 per cent down payment, totaled about $115 per month on a three-year auto loan— absorbing 10 per cent of gross median household income.

Thus, in the past seven years, the typical monthly payment required to finance the average-priced new car has more than doubled, expanding at a rate almost twice as fast as the growth of median household income. But of the $125 increase in average monthly payments, by far the largest proportion of the gain is due to the upward spiral of prices. If the amount financed when purchasing a new car had remained at 1975 levels, the 6¼ percentage point escalation in the average interest rate since then would have added only $10 to the monthly payment. While this amount may be important to some buyers in today's recession-prone economy, it

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/24/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	136.554	− .129	+12.553
Loans to Depository Inst.	1.900	− .008	+ .187
Float	4.004	+ 1.565	− 1.268
Total Reserve Bank Credit	151.335	+ .289	+10.639
Treasury Deposits with Federal Reserve Banks	6.693	+ 2.125	+ 3.317
Currency Outside Banks	125.896	− .104	+ 6.073
Member Bank Reserves:			
Required	40.658	− .799	+ 1.456
Excess (Deficiency)	− .001	− .578	+ .164
Total Reserves Held	40.657	− 1.377	+ 1.620
Net Borrowed Reserves	1.755	+ .558	+ .037
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.410	+ .769	+ .433

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	444.8	+ 10.6‡	+ 6.7‡
M2 (January '82)	1,840.2	+ 11.4	+ 10.5
M3 (January '82)	2,203.7	+ 9.8	+ 11.1
L (November '81)	2,625.3	+ 10.3	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 3/5/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.20%	12.40%	12.10%
*** Federal Agencies**	13.00	13.30	13.58
*** Project Notes—Taxfree (46% Taxable Equivalent)**	13.15	13.33	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	13.75	13.90	14.85

‡Finance Company Paper—Prime	
5- 14 days	13.50%
15- 29 days	13.50
30- 59 days	13.63
60- 89 days	13.00
90-179 days	13.00
180-239 days	13.00
240-270 days	12.63

‡* Bankers' Acceptances	
Apr.	13.55%
May	13.35
Jun.	13.15
Jul.	13.00
Aug.	12.95
Sep.	12.70

‡Industrial Paper—Prime	
30- 89 days	13.63%
90-120 days	13.38

†Federal Funds Effective Rate 14.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,995	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	− 4.7	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan '82	3.6%	4.8%	9.6%
Change in Producer Prices*	Jan '82	4.8%	3.6%	14.4%
Civilian Employment (Thousands of Persons)†	Feb '82n	99,590	99,581	100,069
Unemployment as % of Civilian Labor Force†	Feb '82n	8.8%	8.5%	7.4%
Personal Income*	Jan '82	$ 2,495	$ 2,491	$ 2,301
Leading Indicators Composite Index (1967=100)†	Jan '82n	127.0	127.8	135.2
Industrial Production Index (1967=100)†	Jan '82	139.1	143.4	151.4
Net Change in Consumer Installment Credit†	Dec '81	−$ 0.17	$ 0.34	$ 1.62
U.S. Merchandise Trade Balance†	Jan '82n	−$ 4.09	−$ 0.86	−$ 3.71
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Jan '82	894	899	1,585
New Construction Expenditures*	Jan '82n	$ 231.0	$ 234.4	$ 259.0
Total Business Inventories†	Dec '81	$ 513.1	$ 515.2	$ 475.2
Total Business Sales†	Dec '81	$ 343.3	$ 345.2	$ 343.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

should be noted that at current prices and cash payments, each one percentage point fluctuation in interest rates results in a change of only $3 to $4 in the monthly payment.

This suggests that even a sharp slide in interest rates may not trigger a revival in auto sales. Rather, potential buyers would be much more positively influenced in the short run by a decline in selling prices (or more rapid personal incomes growth). Indeed, with rebates in effect in February, domestic auto sales ran at a seasonally adjusted 6.3 million unit annual rate, more than 10 per cent above month-earlier levels, although still far short of the sales volume necessary for a return to health.

. . . And Recovery Was Nigh?

With housing and autos unlikely to lead the economy out of recession, the pace of business capital goods spending may well determine both the timing and strength of any economic rebound. Unfortunately, the severe erosion of corporate liquidity positions which has occurred in recent years raises doubts that a strong upturn in plant and equipment outlays can be sustained for long in the absence of a good-sized rise in borrowed funds. But with Federal government credit needs about to stage a massive leap upward, this development would only lead to a clash between public and private borrowings, push interest rates higher and, ultimately, choke off any capital goods-led recovery.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/17/82)	130,893	– 3,342	+18,316
New York City (2/17/82)	32,835	– 1,724	+ 5,342
Commercial Paper (2/17/82)	169,426	+ 1,055	+39,053

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/17/82)	199,044	+ 1,004	+28,317
New York City (2/17/82)	55,735	– 178	+ 5,879

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/17/82)	471,149	+ 2,910	+45,280
New York City (2/17/82)	109,853	+ 870	+ 9,795

Financial Markets

	Friday 3/5/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.18%	– .67	– 2.85
180-Day Bills†	12.85	– 1.10	– 2.13
Longest Bills†	12.90	– 1.20	– 1.47
Recent Issues:			
$15\frac{1}{8}$s 2/29/84	12.77	– 1.58	
$14\frac{1}{8}$s 12/31/85	13.40	– .80	
$14\frac{5}{8}$s 2/15/92	13.35	– .64	
14s 11/15/11	13.16	– .64	
Municipals:			
Bond Buyer–20 Bond Index* (3/4/82)	12.53%	– .17	+ 2.13
Blue List Total ($ Million)	$ 804	+ $ 2	+ $ 3
30-Day Visible Supply ($ Million)	$2,265	+ $475	+ $ 153
Total	$3,069	+ $477	+ $ 156
Corporates:			
Moody's Aa Composite (3/4/82)	15.21%	– .25	+ 1.02
30-Day Visible Supply ($ Million)	$10,232	+ $695	+ $6,680
Stocks:			
Dow-Jones Averages:			
Industrials	807.36	– 17.03	– 157.26
Transportation	322.82	– 13.56	– 80.91
Utilities	107.68	+ .45	– .43
65 Stocks	316.25	– 7.29	– 55.94
Standard and Poor's 500 Stocks	109.34	– 3.77	– 20.51
N.Y.S.E. Composite Index	63.14	– 2.19	– 11.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	65,860	+ 9,618	+ 19,200

* 46% Taxable equivalent 23.20%.

† Bond equivalent.

International Rates

	Friday 3/5/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.38%	13.38%
1 month	14.38	14.50
3 month	14.38	14.88
6 month	14.44	15.00
1 year	14.44	15.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	14.80%
Long Term (7 to 15 yrs.)	14.70	14.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/5/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02304	43.41
Canada	.8237	1.2140
Denmark	.1262	7.9253
France	.1666	6.0025
Germany	.4259	2.3477
Italy	.0007894	1266.80
Japan	.004259	234.78
Mexico	.02210	45.25
Netherlands	.3887	2.5730
Switzerland	.5384	1.8575
U.K.	1.8390	.5438

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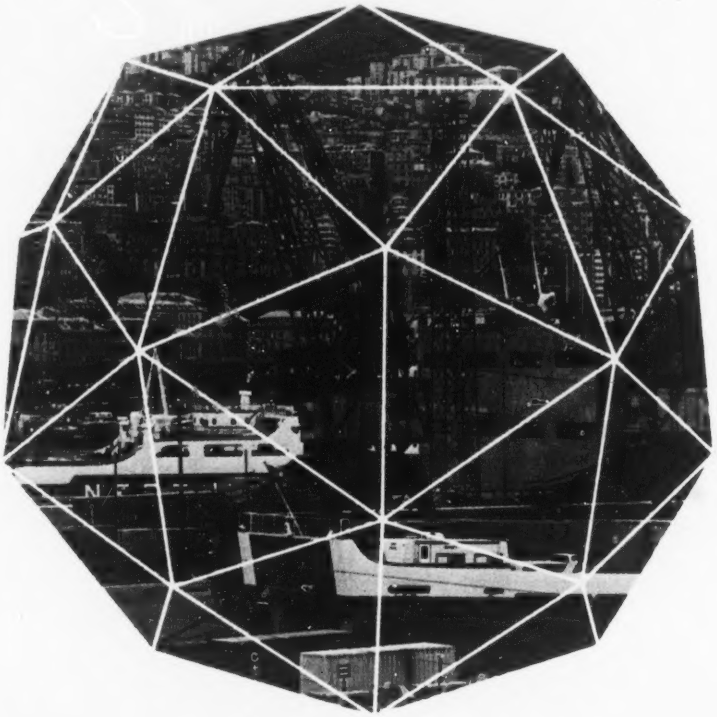

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3/16/82

The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 15, 1982 VOLUME XIX, NUMBER 11

Plunging Oil Demand . . .

The Organization of Petroleum Exporting Countries (OPEC), the cartel which has dominated the world oil market since 1973, appears to have become the victim of its own success. Through its control over the bulk of the free world's oil reserves and production capacity OPEC has, until recently, been able to boost the world price of oil to whatever levels it desired. The huge increases in the price of oil since 1973 have been the major cause for the slowing in the pace of world economic activity which, combined with growing energy conservation efforts, subsequently caused a sharp decline in the demand for petroleum.

In the United States alone, for example, consumption has declined from an average of 20.6 million barrels per day (mbd) in 1979 to 16.1 mbd at present. This represents a fall of almost 22 per cent in the face of only a flattening in real growth. Reflecting the impact of plunging demand, free world oil production fell from 48.6 mbd in 1979 to 40.2 mbd in October, 1981, a reduction of 17.3 per cent. In particular, OPEC production has fallen 31.4 per cent in the same period. As a consequence, OPEC output has fallen from 64 per cent of total free world production to less than 50 per cent today.

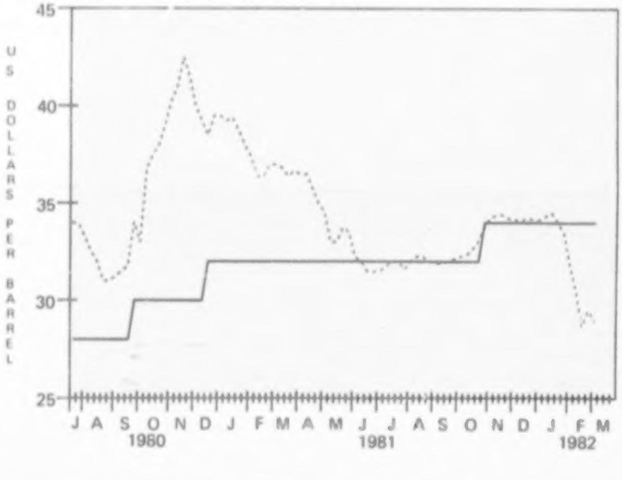
Non-OPEC oil producers have greatly increased their shares of the world market. Mexico, Great Britain, Norway, Egypt and Angola (and, in the United States, Alaska) have recently become major oil producers, competing fiercely, and with fewer "restrictions" than OPEC. Mexico in particular, has become the world's fourth largest oil producer with output close to 2.5 mbd. The Soviet Union, the world's largest oil producer, has been increasing oil exports in order to boost its foreign exchange earnings. China, too, is seeking to elevate its production and exports. Further, the current excess supply of oil has occurred at a time when two major sources of oil, Iran and Iraq, are exporting very little. As recently as 1977, the combined output of these two countries was close to eight mbd. If and as these countries settle their differences and increase production, oil supplies will swell further. Indicative of the current oil glut is the fact that OPEC's current production is only 59 per cent of their sustainable production capacity. In 1979, it was 90 per cent.

. . . And Falling Prices

Oil prices have begun to reflect the combination of weakening demand and overproduction of petroleum. There has been a persistent pattern of both official and unofficial price cuts since the beginning of the year. Iran, Great Britain, Mexico and Venezuela have recently cut prices for their crude oil exports and further price cuts are expected. Although the official base price for OPEC oil remains at $34 per barrel, price cutting, bartering, discounts and rebates by OPEC and non-OPEC producers alike seem to be the order of the day. An indication of this may be seen in the movement of spot prices.

The average spot price for the OPEC "marker" crude oil (Saudi Arabian Light) during the week of February 26, 1982 was $29.50, down 13.6 per cent from the spot price on January 1, 1982, although in the same period the average official OPEC price remained unchanged. Spot prices, however, represent the marginal value of oil, that is, the price at which excess production is cleared from the market. They are the precursors of trends in the official price.

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE) VS. SPOT PRICE (DOT)



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The decline in the volume of oil exports as well as the fall in the price which the OPEC oil countries are experiencing is creating a new problem for the oil producers. In an effort to keep revenues at the levels upon which their current needs and development plans are predicated, OPEC has not cut production as fast as demand has dropped, resulting in a sharp drop in prices and, consequently, revenues.

A Quandary For OPEC

The oil exporting nations, particularly those belonging to OPEC, have been unable so far to develop a concerted response to the decline in their revenues. There are two schools of thought among OPEC members as to what remedial action should be taken. Most OPEC members, particularly those with large populations, favor a sharp cut in production, while maintaining the official base price (from which other crude oils of varying qualities are priced) at $34 per barrel. The other view is that the price of oil should be allowed to fall, encouraging consumption and at the same time contributing to a reduction in world inflation rates.

It is easy to see the reasons underlying each school of thought. Those who favor reducing output want Saudi Arabia, which produces over one-third of total OPEC production, to do most, if not all, of the cutting—as much as two to three mbd. Current Saudi Arabian production is estimated to be under

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/3/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	135.184	– 1.370	+ 8.790
Loans to Depository Inst.	1.566	– .334	+ .267
Float	3.146	– .914	+ .384
Total Reserve Bank Credit	149.267	– 2.124	+ 8.885
Treasury Deposits with Federal Reserve Banks	3.928	– 2.765	+ 1.246
Currency Outside Banks	124.949	– .946	+ 6.011
Member Bank Reserves:			
Required	40.562	– .096	+ 1.083
Excess (Deficiency)	.547	+ .492	– .128
Total Reserves Held	41.109	+ .396	+ .955
Net Borrowed Reserves	.872	– .827	+ .424
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.610	+ .200	– 2.468
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1	448.3	+ 9.3‡	+ 6.3‡
M2 (February '82)	1,846.0	+ 8.0	+ 10.0
M3 (February '82)	2,213.6	+ 7.2	+ 10.6
L (November '81)	2,625.3	+ 10.3	+ 11.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/12/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.55%	12.70%	12.45%
* Federal Agencies	13.26	13.84	13.84
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.54	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.50	14.60	14.55

‡ Finance Company Paper—Prime	
5- 14 days	13.25%
15- 29 days	13.25
30- 59 days	13.75
60- 89 days	12.50
90-179 days	12.50
180-239 days	12.50
240-270 days	12.50

‡* Bankers' Acceptances	
Apr.	13.80%
May	13.70
Jun.	13.60
Jul.	13.60
Aug.	13.50
Sep.	13.30

‡ Industrial Paper—Prime	
30- 89 days	13.75%
90-120 days	13.63

† Federal Funds Effective Rate 14.65%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,995	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 4.7	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan '82	3.6%	4.8%	9.6%
Change in Producer Prices*	Feb '82n	– 1.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons) †	Feb '82	99,590	99,581	100,069
Unemployment as % of Civilian Labor Force †	Feb '82	8.8%	8.5%	7.4%
Personal Income*	Jan '82	$ 2,495	$ 2,491	$ 2,301
Leading Indicators Composite Index (1967=100) †	Jan '82	127.0	127.8	135.2
Industrial Production Index (1967=100) †	Jan '82	139.1	143.4	151.4
Net Change in Consumer Installment Credit †	Jan '82n	$ 0.44	–$ 0.03	$ 0.87
U.S. Merchandise Trade Balance †	Jan '82	–$ 4.09	–$ 0.86	–$ 3.71
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Jan '82	894	899	1,585
New Construction Expenditures*	Jan '82	$ 231.0	$ 234.4	$ 259.0
Total Business Inventories †	Jan '82n	$ 509.7	$ 511.8	$ 478.5
Total Business Sales †	Jan '82n	$ 336.9	$ 342.3	$ 352.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

seven mbd, down from a recent level of 8.5 mbd. If this cutback in output were sufficient to hold present price levels, the other OPEC countries would realize their export revenue goals and, once demand picked up, as it might be expected to do as the global economy recovers, they could expect to increase export sales.

On the other hand, Saudi Arabia has already absorbed substantial production cuts (Saudi Arabia's capacity exceeds ten mbd). Thus, it might be already approaching the minimum production level consistent with its national development objectives—some 6.5 mbd. This is the level of production, with oil prices down to perhaps $28 per barrel, that generates the minimum revenue the Saudi Arabians apparently need to sustain their development program. Further, by contributing to easing the inflationary impact of energy costs, the Saudis evidently hope to encourage a return to global growth and prosperity and, eventually increased oil consumption.

The OPEC oil producers have finally come face to face with a fundamental weakness of cartels. By raising the world price of oil in order to hasten their own economic development and raise their populations' living standards, the OPEC member states have also encouraged vigorous (and highly effective) conservation programs in consuming

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/24/82)	135,142	+ 4,253	+22,654
New York City (2/24/82)	33,324	+ 489	+ 6,644
Commercial Paper (2/24/82)	168,371	− 1,055	+38,242

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/24/82)	198,950	− 149	+29,034
New York City (2/24/82)	55,985	+ 250	+ 6,607

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/24/82)	472,501	+ 1,285	+48,692
New York City (2/24/82)	110,380	+ 527	+11,526

Financial Markets

	Friday 3/12/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.27%	+ 1.09	− .56
180-Day Bills†	13.91	+ 1.06	+ .47
Longest Bills†	14.05	+ 1.15	+ .71
Recent Issues:			
15$^{1}/_{8}$s 2/29/84	14.34	+ 1.57	
14$^{1}/_{8}$s 12/31/85	14.13	+ .73	
14$^{5}/_{8}$s 2/15/92	13.96	+ .61	
14s 11/15/11	13.62	+ .46	
Municipals:			
Bond Buyer—20 Bond Index* (3/11/82)	12.71%	+ .53	− 1.12
Blue List Total ($ Million)	$1,087	+ $283	+ $ 317
30-Day Visible Supply ($ Million)	$2,046	− $219	+ $ 24
Total	$3,133	+ $ 64	+ $ 341
Corporates:			
Moody's Aa Composite (3/11/82)	15.22%	+ .01	+ 1.31
30-Day Visible Supply ($ Million)	$10,152	− $ 80	+ $6,017
Stocks:			
Dow-Jones Averages:			
Industrials	797.37	− 9.99	− 188.40
Transportation	320.00	− 2.82	− 100.40
Utilities	106.01	− 1.67	− 2.90
65 Stocks	312.51	− 3.74	− 69.39
Standard and Poor's 500 Stocks	108.61	− .73	− 24.50
N.Y.S.E. Composite Index	62.52	− .62	− 13.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	61,136	− 4,724	+ 6,338

* 46% Taxable equivalent 23.54%.

† Bond equivalent.

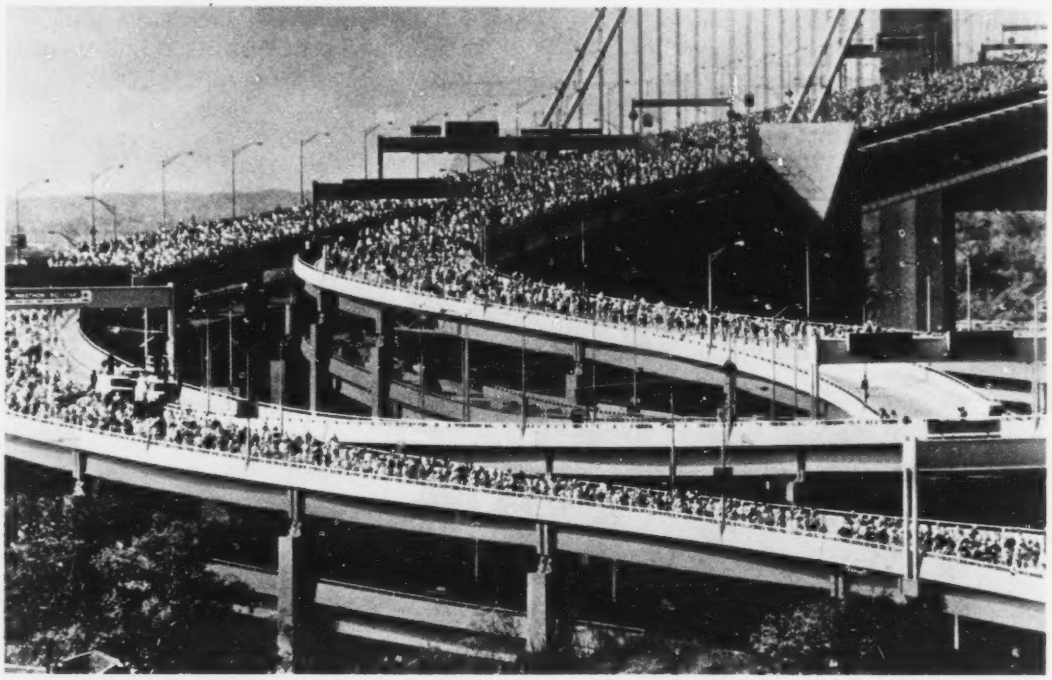
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/12/82	Week Ago
Overnight	14.63%	14.38%
1 month	14.94	14.38
3 month	14.94	14.38
6 month	14.94	14.44
1 year	14.94	14.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.60%
Long Term (7 to 15 yrs.)	14.80	14.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/12/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02273	43.99
Canada	.8242	1.2133
Denmark	.1253	7.9793
France	.1642	6.0915
Germany	.4208	2.3763
Italy	.0007787	1284.20
Japan	.004171	239.73
Mexico	.02212	45.20
Netherlands	.3842	2.6025
Switzerland	.5336	1.8740
U.K.	1.8015	.5551

countries and conversion to other forms of energy. Their actions have also stimulated the search and development of new sources of petroleum. At the same time, by reducing the demand for oil, OPEC has lost control over a significant portion of the Free World's energy use. As other non-OPEC producers increase production in order to maximize their income to meet the cost of economic development in the face of a shrinking market, prices will continue to drop until a supply/demand equilibrium point is reached. The price of oil at this point will reflect its "real" economic value.



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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 22, 1982
VOLUME XIX, NUMBER 12

Weak Corporate Finances . . .

With expectations rapidly receding that stepped-up household spending for new homes and automobiles will provide the momentum to escape the doldrums of this recession, the pace of business capital goods spending may well determine both the timing and strength of any economic rebound. Unfortunately, if this is the case, the economic outlook is bleak. For despite the investment incentives given to business by the Administration as part of its economic recovery program, a number of industries have proceeded to scale back their capital spending plans. According to the Commerce Department, businesses now expect to trim plant and equipment outlays by one per cent this year, after adjustment for inflation, following virtually no change in 1981. Clearly, corporations are being influenced more by the sizable chunks of idle capacity and record high real interest rates, rather than the beneficial impact of new tax policies.

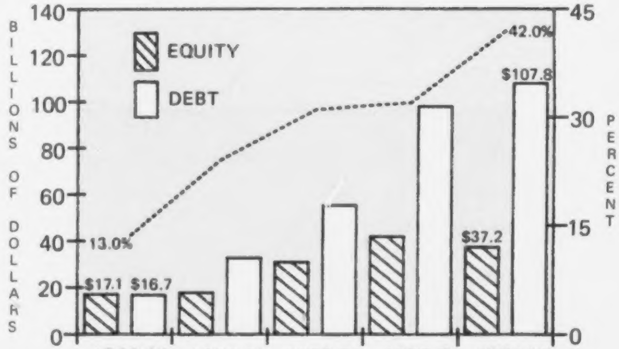
Underlying corporate America's lackluster investment performance in recent years has been the ongoing deterioration of corporate liquidity positions. One of the major factors accounting for this has been the sluggish growth of corporate earnings. Hard-hit by weak "real" final sales, escalating labor, energy and financing costs as well as slumping productivity performance, many corporations have experienced only modest profits growth at best, and sharp losses at worst. This trend was highlighted once again in the fourth quarter of 1981 when profits from current production—which excludes temporary inventory profits—skidded at a $16.2 billion seasonally adjusted annual rate quarter-over-quarter, or by 8.3 per cent. Ominously, the profits weakness was confined not only to the long-suffering housing, auto and airline industries, but extended into such previously prosperous areas as high technology, where the demand for semiconductors and business equipment waned.

. . . Plus Lofty Borrowing Costs . . .

Perhaps the most far-reaching by-product of stagnant corporate profitability, together with the associated inability of the stock market to achieve a firmer footing, has been the extremely slow accretion of the capital base of many companies—which, in turn, has fueled their dependence upon debt. Whereas U.S. nonfinancial corporations were adding more than $1 of equity to their balance sheets in the early 1960s for each dollar of debt, by 1981 they were adding just about $3 of debt for each dollar of equity (see Chart I).

And when you consider that the largest proportion of equity growth consisted of retained earnings (adjusted for inventory profits and replacement cost depreciation), the diminished role of stocks as a source of corporate finance becomes even more striking; during the 1977-81 period, the dollar value of new debt additions to corporate balance sheets exceeded new stock additions by a staggering 165 to 1. What is more, since an ever-growing proportion of this debt was of short maturity, while at the same time short-term interest rates were spiking to record high levels, it is hardly surprising that most of the traditional indicators of corporate financial health deteriorated—many to historic depths.

CHART I
NET ADDITIONS TO EQUITY AND DEBT BY U.S. NONFINANCIAL CORPORATIONS (BARS) VS. CORPORATE INTEREST BURDEN (DOT)



. . . Derail Prospects . . .

The ratio of short-term liabilities to total liabilities, for example, jumped from less than 35 per cent in 1976 to more than 41 per cent currently, indicative of the difficulties of corporations in securing long-term finance. Since this liquidity indicator can be

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considered a proxy for the investment horizon of these entities, the upward spiral of this ratio does not bode well for the undertaking of those projects possessing either a significant degree of innovation or long payout periods.

While debt-financed business expansion is both useful and prudent as long as profitability grows apace, for business as a whole this has not been the case. Slumping profitability and woefully inadequate depreciation set-asides have retarded the growth of corporate cash flow, while rising short- and long-term interest rates, together with massive increases in debt outstanding, have ballooned the debt service burden. As Chart I indicates, interest expenses alone absorbed about 42 per cent of net corporate cash flow in 1981, well above the approximately 28 per cent level prevailing at the bottom of the last recession, and more than three times the proportion devoted to interest payments in the early 1960s.

. . . For A Capital Goods-Led Recovery

With the role of equity-financed expansion diminished and high cost, short-term debt finance being increasingly relied upon to either maintain or expand capital spending levels, project selection has become much more difficult. Undoubtedly, since

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/10/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	131.533	– 3.651	+ 6.047
Loans to Depository Inst.	1.447	– .119	+ .679
Float	3.056	– .079	+ .042
Total Reserve Bank Credit	144.880	– 4.376	+ 5.685
Treasury Deposits with Federal Reserve Banks	3.630	– .298	+ .608
Currency Outside Banks	124.953	+ .004	+ 6.350
Member Bank Reserves:			
Required	38.169	– 2.393	– .699
Excess (Deficiency)	.254	– .282	+ .024
Total Reserves Held	38.423	– 2.675	– .675
Net Borrowed Reserves	1.042	+ .159	+ .689
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.264	+ .654	– 2.465

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		448.4	+ 9.0‡	+ 6.2‡
M2	(February '82)	1,845.6	+ 7.9	+ 10.0
M3	(February '82)	2,213.6	+ 7.2	+ 10.6
L	(November '81)	2,625.3	+ 10.3	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/19/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.30%	12.40%	11.90%
* Federal Agencies	13.81	13.91	14.18
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.81	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.55	14.55	15.00

‡Finance Company Paper—Prime	
5- 14 days	13.00%
15- 29 days	13.50
30- 59 days	13.50
60- 89 days	13.00
90-179 days	13.00
180-239 days	13.00
240-270 days	13.00

‡* Bankers' Acceptances	
Apr.	14.20%
May	14.10
Jun.	13.90
Jul.	13.80
Aug.	13.70
Sep.	13.60

‡Industrial Paper—Prime	
30- 89 days	14.13%
90-120 days	14.00

†Federal Funds Effective Rate 14.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,998	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 4.5	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Jan '82	3.6%	4.8%	9.6%
Change in Producer Prices*	Feb '82	– 1.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons) †	Feb '82	99,590	99,581	100,069
Unemployment as % of Civilian Labor Force †	Feb '82	8.8%	8.5%	7.4%
Personal Income*	Feb '82n	$ 2,510	$ 2,498	$ 2,318
Leading Indicators Composite Index (1967=100) †	Jan '32	127.0	127.8	135.2
Industrial Production Index (1967=100) †	Feb '82n	141.8	139.6	151.8
Net Change in Consumer Installment Credit †	Jan '82	$ 0.44	–$ 0.03	$ 1.21
U.S. Merchandise Trade Balance †	Jan '82	–$ 4.09	–$ 0.86	–$ 3.71
Plant and Equipment Expenditures*	2nd Q'82n	$336.77	$345.46	$316.73
Private Housing Starts (Thousands of Units)*	Feb '82n	953	895	1,294
New Construction Expenditures*	Jan '82	$ 231.0	$ 234.4	$ 259.0
Total Business Inventories †	Jan '82	$ 509.7	$ 511.8	$ 478.5
Total Business Sales †	Jan '82	$ 336.9	$ 342.3	$ 352.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

balance sheets are already top-heavy with debt, interest rates at lofty heights, debt service absorbing a record proportion of cash flow and capacity utilization near postwar lows, the rate of return required to proceed with contemplated projects has also soared. While this rate will vary widely depending upon industry and management philosophy, as a general rule, rates of return of at least twice borrowing costs are necessary for project implementation to begin. And with before-tax financing costs hovering in the mid-teens in both the money and bond markets, "hurdle" rates of return of 30 per cent, if not more, have become necessary in order to justify capital expenditures.

This suggests, in turn, that near-term capital spending will become increasingly biased toward those projects which possess either relatively short payout periods, offer a high degree of liquidity or substantially reduce costs. Alternatively, those projects which do not possess these attributes, such as new capacity additions in basic industries like auto and steel, will be either postponed or shelved altogether. This would not only preclude a capital goods-led recovery in particular, but it also jeopardizes the entire "supply-side" economic program as well—and provides one principal reason why "real" investment spending in 1981 stood almost seven per cent below the peak reached in 1979.

(Continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/3/82)	134,340	– 801	+24,263
New York City (3/3/82)	32,846	– 478	+ 6,132
Commercial Paper (3/3/82)	168,449	+ 111	+37,542

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/3/82)	198,828	– 122	+28,391
New York City (3/3/82)	55,529	– 456	+ 5,979

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/3/82)	472,287	– 214	+46,387
New York City (3/3/82)	109,692	– 688	+ 9,377

Financial Markets

	Friday 3/19/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.49%	+ .22	+ 1.09
180-Day Bills†	13.49	– .42	+ 1.79
Longest Bills†	13.91	– .14	+ 2.41
Recent Issues:			
14$^1/_8$s 3/31/84 (When Issued)	14.30	– .04	
14$^1/_8$s 12/31/85	14.12	– .01	
14$^5/_8$s 2/15/92	13.64	– .32	
14s 11/15/11	13.41	– .21	
Municipals:			
Bond Buyer–20 Bond Index* (3/18/82)	12.99%	+ .28	+ 3.18
Blue List Total ($ Million)	$ 934	– $153	+ $ 213
30-Day Visible Supply ($ Million)	$2,351	+ $305	+ $ 99
Total	$3,185	+ $ 52	+ $ 212
Corporates:			
Moody's Aa Composite (3/18/82)	15.19%	– .03	+ 1.55
30-Day Visible Supply ($ Million) ‡	$2,635	NA	NA
Stocks:			
Dow-Jones Averages:			
Industrials	805.65	+ 8.28	– 187.15
Transportation	329.16	+ 9.16	– 89.43
Utilities	106.58	+ 0.57	– 2.55
65 Stocks	317.19	+ 4.68	– 65.70
Standard and Poor's 500 Stocks	110.61	+ 2.00	– 23.47
N.Y.S.E. Composite Index	63.62	+ 1.10	– 8.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,678	–12,458	– 10,584

* 46% Taxable equivalent 24.06%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/19/82	Week Ago
Overnight	15.19%	14.63%
1 month	15.25	14.94
3 month	15.25	14.94
6 month	15.19	14.94
1 year	15.13	14.94
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.70%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.80

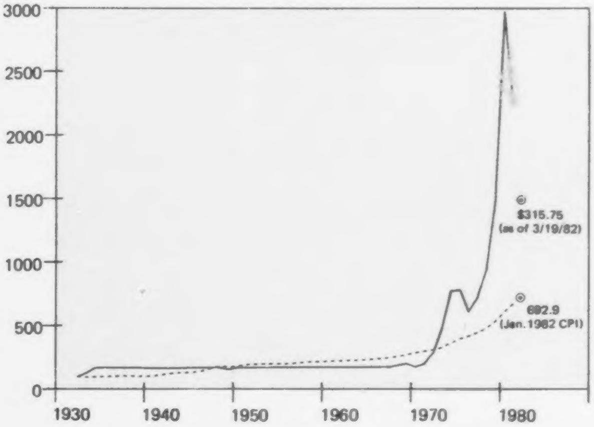
FOREIGN EXCHANGE SPOT RATES

New York Opening (3/19/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02230	44.85
Canada	.8203	1.2190
Denmark	.1237	8.0813
France	.1607	6.2225
Germany	.4194	2.3845
Italy	.0007616	1313.00
Japan	.004106	243.53
Mexico	.02222	45.00
Netherlands	.3810	2.6245
Switzerland	.5261	1.9008
U.K.	1.8017	.5550

All That Glitters

The glitter of gold appears to have faded for the speculator, investor and saver. Last week the market price of gold fell to $316 per ounce, down 20 per cent from the first of this year and a huge 63 per cent from its peak on January 21, 1980. Because the popularity of gold is largely due to its attractiveness as a hedge against inflation, as inflation has slowed, preservation of the purchasing power of money has become a less critical factor. What is more, high interest rates have created an opportunity cost (in terms of returns available on funds invested in debt instruments) in addition to the cost of storage.

CHART II
GOLD PRICES (LINE) VS.
THE CONSUMER PRICE INDEX (DOT)
(1932=100)



Nevertheless, as an inflation hedge, gold is still overvalued. Between 1932 and the present, consumer prices increased almost seven times while the price of gold has jumped to a level over 15 times higher (see Chart II). At one point in January, 1980 it was about 30 times higher than 1932 levels. The price of gold began to deviate sharply from the inflation rate in 1973 coincident with a commodity price boom and the first jump in oil prices. It continued to escalate, peaking in January, 1980, after rising interest rates, the growing strength of the dollar and the better political climate in the United States made investment in dollar-denominated assets increasingly attractive. The uncertainties instigated by the rapid rise in energy prices evidently had encouraged speculation which raised the price of gold beyond the point it would have reached purely as a hedge against inflation (about $150 per ounce). As this uncertainty has faded, the speculative premium has shrunk.

The present oversupply of oil which has resulted in falling oil prices has also added to gold's recent price decline: Some oil producing countries have reduced their gold purchases while others may actually be selling gold in order to raise cash. In addition, South Africa and the U.S.S.R. appear to be selling increased portions of their gold stocks in order to generate foreign exchange to meet their rising external obligations. As long as interest rates remain high, inflation moderate and no war or other crisis erupts, gold's price will continue to soften.

THE SHAREHOLDERS RELATIONS FITNESS TEST.

STRENGTH:
Effective shareholder relations start with a stock transfer agent backed by an ongoing investment in hardware, software and "peopleware."

At Manufacturers Hanover, we're committed to having on-line the latest generation of computers with the most sophisticated programming capabilities available.

TRANSIFAC℠ the nerve center of our entire operation, has a track record no competitor can match. Just ask any of the some 400 corporations we serve.

WEIGHT:
For many customers, Manufacturers Hanover has reduced the number of shareholder accounts by more than 10% – the result of seeking out duplicate accounts the previous stock transfer agent may have entered wrong.

REFLEXES:
At Manufacturers Hanover, shareholder records are accessible instantly. So you can respond without delay to such developments as tender offers.

MEMORY:
Our TRANSIFAC system maintains fully computerized audit controls over all work; keeps track of certificate inventory; and assures control over the production of certificates and transfer reports and the mailing of dividend checks.

POSTURE:
Manufacturers Hanover recognizes that the human side of this business is all-important. Not only will you have an account administrator coordinating all day-to-day tasks, but a backup team of three other officers thoroughly familiar with every aspect of your account. So you and your shareholders always have someone to turn to.

If your present stock transfer agent looks out of shape to you, talk to Manufacturers Hanover. For more information on our stock transfer and registration services, contact Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, N.Y., N.Y. 10015.

IF YOUR STOCK TRANSFER AGENT CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.

B5350-2 3/29/82

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 29, 1982 VOLUME XIX, NUMBER 13

If It's Not One Thing . . .

One indication of the uncertainty overhanging the financial markets is the seemingly endless array of negative factors which continues to dominate their behavior. Just as one disappears, another arises. For instance, at the beginning of the year there was concern over the bulge in the money supply, with its implications for interest rates and inflation psychology. Then it was fears of a deeper-than-expected recession, with its impact on corporate profits. More recently, it was the clash between fiscal and monetary policies. But with signs on the horizon that the recession may be bottoming out, the likelihood that the rate of inflation has indeed moved to a permanently lower plateau and the general relief that much of the early January money supply bulge has been worked down, the markets have had to find another excuse for their gloomy performance. As a result, they have shifted their focus once again to that old standby—the dismal Federal budget outlook.

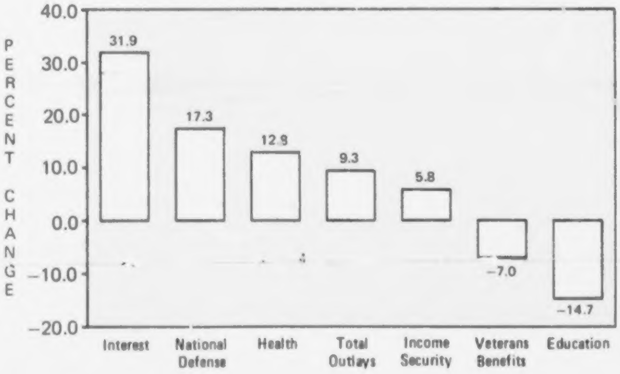
Indeed, scarcely a day goes by without the size of the potential Federal deficit in fiscal 1982 and beyond being revised upward. Although a record budget deficit may yet occur in this fiscal year, it would be hard to tell from the budget performance so far. According to the Treasury Department, the Federal budget posted a $14.78 billion deficit in February, about $1 billion less than the $15.58 billion red ink total registered in February, 1981. This brings the five-month, fiscal 1982 deficit to $53.66 billion, $2 billion less than the red ink total recorded during the October-February period of fiscal 1981. What makes this accomplishment all the more remarkable is that it occurred against the backdrop of a rapidly contracting economy, widespread joblessness, a substantial slowing in the rate of inflation and well-publicized predictions that this year's deficit could reach as high as $110 billion, if not more.

What is more, even off-budget spending, which had soared from less than $3 billion in fiscal 1974 to more than $20 billion in fiscal 1981, has held steady this year. During the first five months of fiscal 1982, off-budget expenditures, primarily those of the Federal Financing Bank, totaled just a shade more than $5 billion, about equal to the amount spent during the comparable fiscal 1981 period. Including these outlays with the on-budget expenditures results in an overall five-month, fiscal 1982 deficit of $58.7 billion, compared with $60.7 billion one year ago. A continuation of these trends would produce an "enlarged" Federal deficit of about $76 billion this year, or $3 billion below last year's record $78.9 billion deficit—and some $50 billion less than some current estimates.

. . . It's Another . . .

In light of all the pessimism surrounding Federal finances, this news appears too good to be true because the combination of circumstances which produced the relatively good budget performance so far this year is unlikely to persist. The substantial contraction of the economy which occurred in late 1981 and early 1982 as well as the slowing in the rate of inflation will eventually dampen receipts and boost counter-cyclical expenditures, while the ten per cent across-the-board personal income tax cut scheduled to take effect on July 1 will also take a heavy toll on revenues.

PERCENT CHANGE IN THE SIX LARGEST COMPONENTS OF THE FEDERAL BUDGET: FISCAL 1982 TO DATE VS. COMPARABLE FISCAL 1981 PERIOD



But whether or not the deficit does reach as high as $99 billion in the current fiscal year, one thing is for sure—it is unlikely to wind up less than that recorded last year. What this means is that the Treasury's credit needs, which often moderate at

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this time of year, could be in for a major increase. This means no net paydown of Treasury debt in the second quarter, as there was in 1981, and borrowing requirements in the third quarter substantially larger than the $22.9 billion of net new cash raised in third quarter, 1981.

. . . Depressing The Financial Markets

Trends in Federal expenditures do not suggest a significant improvement in the Federal budget outlook, either. Due to the added emphasis being placed on national defense, military outlays are now expanding at a monthly rate approximately $2 billion higher than spending levels achieved during the first five months of fiscal 1981—accounting for more than 40 per cent of the $25 billion year-over-year spending gain. On the other hand, such income security outlays as inflation-indexed Social Security payments are also rising—but at a slower rate. They increased by $5.7 billion during the first five months of fiscal 1982, compared with the same period of fiscal 1981—accounting for about one-fifth of the overall spending increase.

But while the upturn in defense-related spending and curbs on nondefense spending have been widely publicized, an even faster-growing component of Federal spending—net interest payments on the ever-expanding Federal debt—has not. Net interest outlays are also averaging about $2 billion per

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/17/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.102	+ 2.569	+ 6.658
Loans to Depository Inst.	1.464	+ .017	+ .691
Float	2.031	− 1.096	− 1.317
Total Reserve Bank Credit	146.660	+ 1.709	+ 5.018
Treasury Deposits with Federal Reserve Banks	3.074	− .556	− .057
Currency Outside Banks	126.407	+ 1.454	+ 6.411
Member Bank Reserves:			
Required	38.913	+ .744	− .672
Excess (Deficiency)	.215	− .110	− .017
Total Reserves Held	39.128	+ .634	− .689
Net Borrowed Reserves	1.062	+ .091	+ .714
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.679	− 2.585	− 5.270
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates †			
M1	449.0	+ 8.4‡	+ 5.9‡
M2 (February '82)	1,847.2	+ 8.3	+ 10.1
M3 (February '82)	2,214.2	+ 7.3	+ 10.6
L (November '81)	2,627.2	+ 10.5	+ 11.7

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/26/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.60%	12.70%	12.40%
* Federal Agencies	13.00	13.70	13.80
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.81	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.40	14.55	14.88

‡ Finance Company Paper—Prime	
5- 14 days	12.00%
15- 29 days	13.00
30- 59 days	13.25
60- 89 days	12.50
90-179 days	12.50
180-239 days	12.50
240-270 days	12.50

‡* Bankers' Acceptances	
Apr.	13.70%
May	13.70
Jun.	13.70
Jul.	13.65
Aug.	13.55
Sep.	13.35

‡ Industrial Paper—Prime	
30- 89 days	13.88%
90-120 days	13.75

† Federal Funds Effective Rate 14.30%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,998	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
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Total Business Inventories †	Jan '82	$ 509.7	$ 511.8	$ 478.5
Total Business Sales †	Jan '82	$ 336.9	$ 342.3	$ 352.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

month higher than year-earlier levels, and could reach almost $110 billion for the fiscal year as a whole—equivalent to almost $500 for every man, woman and child in the United States. (See chart on page 1).

To Be, Or Not To Be

The prospect for an ever-widening Federal budget deficit is not the only negative overhanging the financial markets. As April approaches, expectations are rife among financial market participants that a big surge in the money supply is just around the corner. This is due to the anticipated disbursement of larger-than-usual income tax refunds, along with the apparent inability of the Fed's seasonal factors to fully adjust for regularly-recurring money growth developments at this time of year. If such a money bulge does occur, as it did last April, it is feared that the Federal Reserve will have little choice but to tighten the monetary reins again, pushing interest rates higher and prolonging the current recession.

At first glance, it appears that conditions do exist for another money supply surge. Whereas income tax refunds totaled $37.4 billion during the March-May 1981 period, they could exceed $45 billion during the same months of this year, producing a substantial shift of funds from Treasury balances, which are not included in the money supply, to private balances, which are. Part of the reason for

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/10/82)	133,454	− 832	+22,975
New York City (3/10/82)	32,756	− 90	+ 5,804
Commercial Paper (3/10/82)	169,068	+ 624	+37,840

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/10/82)	199,000	+ 181	+29,580
New York City (3/10/82)	55,660	+ 131	+ 6,241

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/10/82)	474,035	+ 1,757	+52,507
New York City (3/10/82)	109,605	− 87	+11,486

Financial Markets

	Friday 3/26/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.48%	− .01	+ .41
180-Day Bills†	14.02	+ .53	+ 1.35
Longest Bills†	13.99	+ .08	+ 1.82
Recent Issues:			
14¹/8s 3/31/84 (When Issued)	14.25	− .05	
14s 3/31/86 (When Issued)	14.19	NA	
14⁵/8s 2/15/92	13.92	+ .28	
14s 11/15/11	13.49	+ .08	
Municipals:			
Bond Buyer—20 Bond Index* (3/25/82)	13.04%	+ .05	+ 2.95
Blue List Total ($ Million)	$ 846	− $ 88	− $ 44
30-Day Visible Supply ($ Million)	$2,675	+ $324	− $ 40
Total	$3,521	+ $336	− $ 84
Corporates:			
Moody's Aa Composite (3/25/82)	15.24%	+ .05	+ 1.34
30-Day Visible Supply ($ Million) ‡	$3,100	+ 465	NA
Stocks:			
Dow-Jones Averages:			
Industrials	817.92	+ 12.27	− 176.86
Transportation	332.32	+ 3.16	− 97.97
Utilities	108.57	+ 1.99	+ 1.04
65 Stocks	321.66	+ 4.47	− 64.36
Standard and Poor's 500 Stocks	111.94	+ 1.33	− 22.71
N.Y.S.E. Composite Index	64.53	+ .91	− 13.06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,736	+ 5,058	− 3,932

* 46% Taxable equivalent 24.15%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 3/26/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.50%	15.19%
1 month	14.94	15.25
3 month	15.25	15.25
6 month	15.31	15.19
1 year	15.13	15.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.65%	14.70%
Long Term (7 to 15 yrs.)	14.75	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/26/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02209	45.27
Canada	.8147	1.2274
Denmark	.1225	8.1650
France	.1596	6.2665
Germany	.4170	2.3983
Italy	.0007597	1316.30
Japan	.004040	247.55
Mexico	.02211	45.22
Netherlands	.3764	2.6565
Switzerland	.5237	1.9095
U.K.	1.7875	.5594

the anticipated swelling of tax refunds is the widespread joblessness which developed toward the end of last year. Those who lost their jobs in 1981 probably overpaid the Treasury while working, since taxes were paid based upon a withholding schedule which assumed full-year employment.

Last year, the combination of tax refunds and inadequate seasonal adjustments were the major—but not the only—reasons for the almost 30 per cent, seasonally adjusted annual rate of M1-B growth during the month ending April 22. An easing by the Fed was a factor, too. This is why, despite the possibility of inadequate seasonal adjustments, it could well be that a repeat performance may be avoided. For, seemingly in anticipation of just such a development, the Fed this time has maintained a restrictive policy posture.

During the 13 weeks ending March 17, for example, nonborrowed bank reserves have contracted at an approximately nine per cent seasonally adjusted annual rate. This stands in sharp contrast with the almost 15 per cent seasonally adjusted annual rate of rise in these reserves during the 13 weeks immediately preceding the April, 1981 money supply bulge. This year's contraction in nonborrowed reserves could dampen whatever upward tendencies might develop for money growth in the next few weeks.

But even if it doesn't, another development may. Since the pace of individual tax filings so far this year has been extremely sluggish, by the time the massive volume of returns expected in early April is processed and refunds issued, it may well be May or June—not April—before a tax refund-induced money supply bulge appears.

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B5350-2

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 5, 1982 VOLUME XIX, NUMBER 14

Gasoline Use Declines . . .

Despite the reduction in inflation pressures derived from declining petroleum and product prices, the opposite could eventually occur if American consumers and industry abandon the substantial conservation efforts made in recent years. Such a development, together with production cutbacks now being imposed by the OPEC producers, could eliminate the global oil glut before long and lead to renewed upward pressures on oil prices. Fortunately, there are few signs on the horizon that this trend has begun to occur. This is because oil prices have not declined long enough, and far enough, to make much difference—yet.

In the United States, consumption continues to ease due to both the steep slump in economic activity and past conservation efforts. Petroleum demand averaged around 16 million barrels per day in 1981, well below the record 19 million barrels per day consumed in 1978—and about eight per cent below the volume consumed in 1973. Moreover, whereas petroleum had accounted for close to one-half of U.S. energy requirements in 1973, by last year it had dropped to nearly 40 per cent. Contributing to the decline in the relative importance of oil was a reduction in residual fuel oil demand by electric utilities: Both coal and nuclear power are now generating a much larger proportion of the nation's electricity.

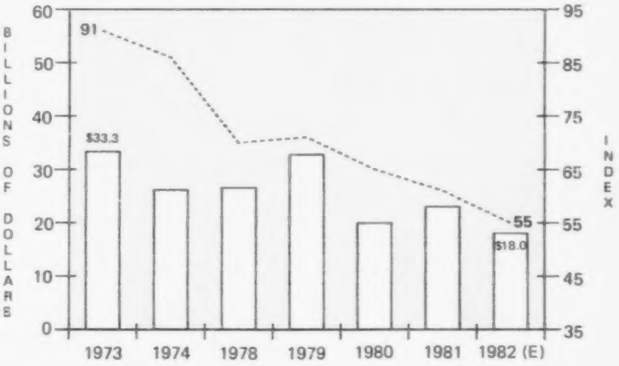
PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1977	9,839		706		13.9
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981(e)	9,200		585		15.7

Sources: Federal Highway Administration; Department of Energy

Perhaps the most significant conservation efforts, however, have resulted from efforts made by both the much-maligned American motorist and the domestic automobile industry. For despite an almost 25 per cent rise in the number of automobiles in use between 1973 and 1981, and only an eight per cent drop in the average number of miles traveled per car between these two years, consumption of motor gasoline in the U.S. was actually lower last year than in 1973. In 1981, gasoline consumption averaged about 6.6 million barrels per day, compared with the 6.7 million barrels per day consumed in 1973.

NET FARM INCOME (BAR) VS.
PARITY RATIO (1910-14 = 100) (DOT): 1973-1982



. . . While Driving Picks Up

What this suggests, obviously, is that a substantial improvement in the fuel efficiency of the typical American automobile has taken place since 1973. Indeed, as shown in the table, the average number of miles traveled per gallon of fuel consumed is estimated to have increased by almost 20 per cent between 1973 and 1981. What is even more remarkable is that this occurred against the backdrop of extremely sluggish levels of new automobile sales—a situation which undoubtedly retarded the shift from older vehicles to new, more fuel-efficient models.

Nor are these improvements likely to be erased anytime soon. For example, although the average number of miles traveled per auto increased last year—the first annual rise since 1978—gasoline consumption per passenger car continued to drop. What is more, at present fuel efficiency levels and

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miles traveled, almost ten million more passenger cars could be placed on America's highways before gasoline consumption would exceed 1973 levels. Thus, even if more driving does occur this spring and summer as gasoline prices drift lower, it is hardly likely that a return to the energy profligacy of the early 1970s is anywhere near at hand.

The American Farmer . . .

If only the news from the farm was as bright. According to the Agriculture Department, farm prices resumed their descent in March, falling 0.8 per cent month-over-month, following an equal-sized increase in February. But with the exception of January and February of this year, when farm prices were temporarily boosted due to the damage arising from severe winter weather conditions in many areas of the country, prices received by farmers have either remained flat or declined for 14 of the past 16 months.

It now appears that this year will be similar, in a variety of disturbing ways, to 1981. With domestic demand for farm and ranch products adversely affected by recession and slower personal income growth while foreign demand remains soggy due to similarly weak business conditions abroad as well as the soaring external value of the dollar, it seems likely that the growth of farm incomes will once again be unable to keep pace with the rise in pro-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/24/82	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.396	+ .294	+ 6.936
Loans to Depository Inst.	1.654	+ .190	+ .784
Float	2.101	– .052	– .795
Total Reserve Bank Credit	147.263	+ .481	+ 5.776
Treasury Deposits with Federal Reserve Banks	3.329	+ .255	+ .087
Currency Outside Banks	126.845	+ .438	+ 6.601
Member Bank Reserves:			
Required	38.865	– .048	– .661
Excess (Deficiency)	.254	– .083	+ .194
Total Reserves Held	39.119	– .131	– .467
Net Borrowed Reserves	1.227	+ .287	+ .617
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.550	+ .871	– 4.759

Monetary Aggregates †			% Change Since Three Months Ago*	Year Ago
M1		445.9	+ 7.4‡	+ 5.7‡
M2	(February '82)	1,847.5	+ 8.4	+ 10.1
M3	(February '82)	2,214.6	+ 7.4	+ 10.6
L	(November '81)	2,627.2	+ 10.5	+ 11.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/2/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.20%	13.00%	12.60%
* Federal Agencies	13.75	14.10	14.15
* Project Notes—Taxfree (46% Taxable Equivalent)	13.61	16.02	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.85	14.65	15.00

‡Finance Company Paper—Prime	
5- 14 days	14.38%
15- 29 days	14.38
30- 59 days	14.50
60- 89 days	14.00
90-179 days	13.75
180-239 days	13.25
240-270 days	13.25

‡* Bankers' Acceptances	
May	14.40%
Jun.	14.20
Jul.	14.10
Aug.	13.95
Sep.	13.70
Oct.	13.60

‡Industrial Paper—Prime	
30- 89 days	14.63%
90-120 days	14.13

†Federal Funds Effective Rate 15.90%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,998	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 4.5	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Feb '82	2.4%	3.6%	12.0%
Change in Producer Prices*	Feb '82	– 1.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons) †	Mar '82n	99,492	99,590	100,406
Unemployment as % of Civilian Labor Force †	Mar '82n	9.0%	8.8%	7.3%
Personal Income*	Feb '82	$ 2,510	$ 2,498	$ 2,318
Leading Indicators Composite Index (1967=100) †	Feb '82n	124.9	125.3	134.2
Industrial Production Index (1967=100) †	Feb '82	141.8	139.6	151.8
Net Change in Consumer Installment Credit †	Jan '82	$ 0.44	–$ 0.03	$ 1.21
U.S. Merchandise Trade Balance †	Feb '82n	–$ 0.39	–$ 4.09	–$ 2.13
Plant and Equipment Expenditures*	2nd Q'82	$336.77	$345.46	$316.73
Private Housing Starts (Thousands of Units)*	Feb '82	953	895	1,294
New Construction Expenditures*	Feb '82n	$ 230.4	$ 232.7	$ 254.5
Total Business Inventories †	Jan '82	$ 509.7	$ 511.8	$ 478.5
Total Business Sales †	Jan '82	$ 336.9	$ 342.3	$ 352.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

duction expenses. For although production costs are expected to post only modest gains this year (increasing by about six per cent year-over-year, the slowest rate of rise since 1975), due to softening energy and feed prices, farm receipts could well expand at only half this rate.

This suggests that farmers' net incomes will remain tightly squeezed this year. Farm income may total only $18 billion in 1982, some 20 per cent below the weak 1981 level and the lowest since 1971. And with prices paid by farmers continuing to escalate, the parity ratio—which, by relating prices received by farmers to prices paid, is a measure of their buying power at any given time compared with a 1910-14 benchmark period—fell in March to its lowest level since the Great Depression. (See chart on page 1.)

. . . Goes Down For The Count

As a result, it is hardly surprising that many farmers plan to drastically curtail spring plantings. Furthermore, in an effort to trim costs, some have even cut back on fertilizer purchases. While such actions may eventually boost farm prices and incomes after existing supplies of foodstuffs are worked down, they are unlikely to do so soon. In the interim, the effects will largely be negative. To help bridge the gap between receipts and expenses, total farm debt will probably take another giant leap upward in

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/17/82)	132,586	– 869	+20,865
New York City (3/17/82)	32,983	+ 227	+ 5,402
Commercial Paper (3/17/82)	170,508	+ 1,440	+38,412

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/17/82)	199,942	+ 929	+29,933
New York City (3/17/82)	56,092	+ 432	+ 6,418
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/17/82)	471,299	– 2,811	+47,416
New York City (3/17/82)	108,659	– 1,014	+ 9,123

Financial Markets

	Friday 4/2/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.74%	+ .26	+ .86
180-Day Bills†	14.13	+ .11	+ 1.67
Longest Bills†	14.05	+ .06	+ 2.01
Recent Issues:			
$14^{1}/_{8}$s 3/31/84	14.24	– .01	
14s 3/31/86	14.20	+ .01	
$14^{5}/_{8}$s 2/15/92	14.02	+ .10	
14s 11/15/11	13.51	+ .02	
Municipals:			
Bond Buyer–20 Bond Index* (4/1/82)	13.13%	+ .09	+ 2.92
Blue List Total ($ Million)	$ 784	– $ 62	– $ 138
30-Day Visible Supply ($ Million)	$1,935	– $740	– $ 809
Total	$2,719	– $802	– $ 947
Corporates:			
Moody's Aa Composite (4/1/82)	15.12%	– .12	+ 1.25
30-Day Visible Supply ($ Million) ‡	$2,956	– $144	NA
Stocks:			
Dow-Jones Avarages:			
Industrials	838.57	+ 20.65	– 168.54
Transportation	339.41	+ 7.09	– 99.30
Utilities	110.20	+ 1.63	+ .74
65 Stocks	328.86	+ 7.20	– 63.18
Standard and Poor's 500 Stocks	115.12	+ 3.18	– 20.37
N.Y.S.E. Composite Index	66.22	+ 1.69	– 11.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,324	– 5,412	+ 136

* 46% Taxable equivalent 24.31%.

‡ Series redefined: *Historical data not available.*

† Bond equivalent.

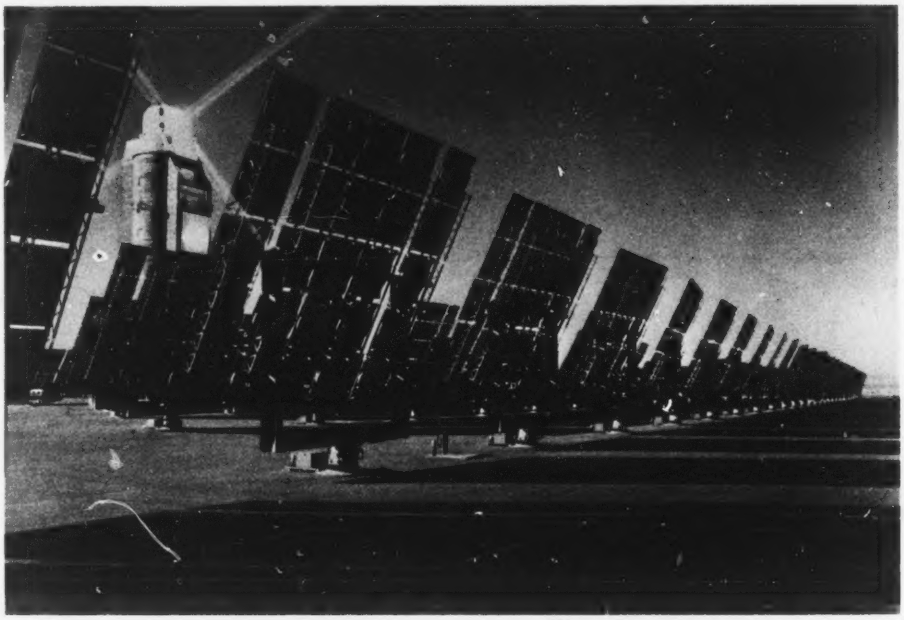
International Rates

	Friday 4/2/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.88%	14.50%
1 month	15.38	14.94
3 month	15.38	15.25
6 month	15.38	15.31
1 year	15.19	15.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.70%	14.65%
Long Term (7 to 15 yrs.)	14.80	14.75
FOREIGN EXCHANGE SPOT RATES		
New York Opening (4/2/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02209	45.27
Canada	.8164	1.2249
Denmark	.1217	8.2150
France	.1602	6.2413
Germany	.4173	2.3963
Italy	.0007576	1320.00
Japan	.004058	246.43
Mexico	.02193	45.60
Netherlands	.3765	2.6560
Switzerland	.5173	1.9330
U.K.	1.7905	.5585

1982: As of the end of 1981, it stood at almost $200 billion, three times higher than in 1973.

And, of course, no story would be complete without another tale of woe for the Federal government. Since programs for such crops as wheat, cotton and rice offer financial incentives to farmers for reducing acreage planted, any additional acreage cutbacks will boost Federal spending further—certainly an unwelcome prospect during a period in which some fiscal year deficit estimates already exceed $100 billion.

4



Solar testing facility near Albuquerque, New Mexico.

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 12, 1982 VOLUME XIX, NUMBER 15

Reports Of Recovery . . .

Despite some analysts' assertions earlier this year that the recession bottomed out in February, a look at the latest batch of weekly and monthly statistics seems to indicate that these assessments were premature. It now appears that the snapback of some economic indicators in February, following their disastrous weather-related plunge in January, was simply insufficient to reverse the slide of the economy. And, with such signposts as consumer and business confidence, auto sales and production, total employment and hours worked still heading lower, economic activity in March probably closed on a lower note than in February.

According to the Conference Board, consumer confidence in the economy slipped to a 15-year low in March. In response, a growing number of households has begun to scale back buying plans. With total employment easing and the unemployment rate now matching its postwar high, it is hardly surprising that consumers have pulled in their horns. The Board's buying plans index (which measures consumers' intentions to purchase such big-ticket items as new homes, autos and appliances) resumed its descent in March, following a jump in February.

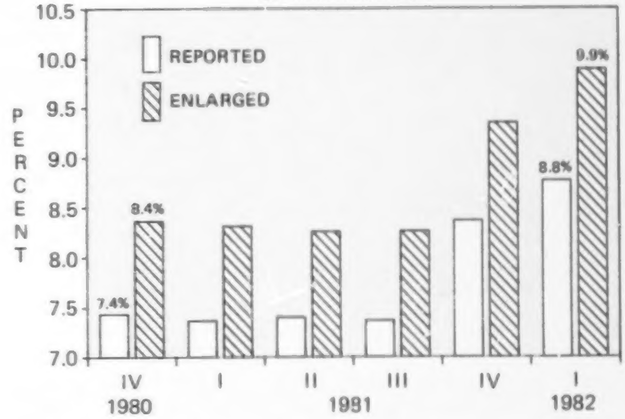
Businessmen also appear unconvinced that recovery is at hand. The March survey of purchasing agents who work for 250 industrial companies revealed substantial, and deepening, economic weakness in the corporate sector. Almost 40 per cent of the purchasing agents reported fewer employees on their company's payrolls in March, compared with the approximately 35 per cent reporting fewer employees in February. Furthermore, 35 per cent reported lower production levels in March, versus only 30 per cent in February.

Perhaps most indicative of the current economic malaise is that, despite vigorous Administration efforts to enhance private sector investment, business capital spending plans can be considered lackluster at best, and dismal at worst. Only 57 per cent of those surveyed indicated firm capital spending commitments beyond six months, well below the nearly 65 per cent with such intentions at the end of 1981 and, more damaging still, the lowest number since the early 1970s.

. . . Are Greatly Exaggerated . . .

What these surveys suggest is that neither consumer nor business spending will increase soon enough to provide sufficient upward momentum to escape the current economic doldrums. Indeed, the most recent statistics seem to confirm this view. For example, new domestic auto sales resumed their downward slide in March, despite extensive manufacturer rebates. They declined by a seasonally adjusted seven per cent month-over-month, to a 5.9 million unit annual rate. What is more, with auto dealers unable to sell the cars already in stock, it is not surprising that auto production itself remains listless. During the week ending March 27, production totaled 89,381 units, almost 40 per cent below year-earlier levels. This, by the way, is below total auto output of 91,021 units during the final week in February which, in turn, was about 30 per cent lower than the year-earlier production pace.

'REPORTED' UNEMPLOYMENT RATE VS.
'ENLARGED' UNEMPLOYMENT RATE (INCLUDES DISCOURAGED WORKERS)
QUARTERLY AVERAGES



Similar difficulties continue to plague homebuilders. Although total housing starts increased by a seasonally adjusted 6.5 per cent in February month-over-month, the uptick was largely due to improved weather conditions in many areas of the country as well as a sizable jump in multifamily starts. But at a seasonally adjusted annual rate of

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only 953,000 units, housing starts still remain mired well below the one million unit mark—and 26 per cent below year-earlier levels.

Even more disturbing to the American dream, however, has been the free-fall in the number of single-family home starts. They declined again in February, this time to the second lowest level on record—with few signs on the horizon that any sustained turnaround will soon occur. For with mortgage interest rates and home prices at their current lofty levels, an ever-larger proportion of households has been simply priced out of the new home market (Financial Digest—March 8, 1982), with little hope of being able to enter as long as current economic conditions persist.

Not surprisingly, with consumer and business confidence diminished, spending plans curbed and autos and housing groping for firmer footings, many other "downstream" industries have also been unable to recover from the current recession. In the steel industry, for example, year-over-year comparisons of total output only highlight a worsening, not improving, picture. Whereas production in the final week of February was down 29 per cent year-over-year (sufficiently large to produce an unemployment rate of almost 15 per cent industry-wide), by early April it was off 40 per cent.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/31/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	133.451	– .945	+ 6.152
Loans to Depository Inst.	1.653	– .001	+ .189
Float	2.066	– .030	– .482
Total Reserve Bank Credit	146.411	– .848	+ 4.658
Treasury Deposits with Federal Reserve Banks	3.097	– .232	+ .210
Currency Outside Banks	125.988	– .844	+ 5.832
Member Bank Reserves:			
Required	38.846	– .019	– .909
Excess (Deficiency)	.455	+ .192	– .078
Total Reserves Held	39.301	+ .173	– .987
Net Borrowed Reserves	.998	– .220	+ .287
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.825	– .725	– 7.895

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	NA	NA	NA
M2 (February '82)	1,847.5	+ 8.4	+ 10.1
M3 (February '82)	2,214.3	+ 7.3	+ 10.6
L (December '81)	2,643.7	+ 10.3	+ 11.5

†Seasonally adjusted. *Seasonally adjusted annual rate.

New York Money Market

Offering Rates 4/8/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.10%	13.10%	12.70%
* Federal Agencies	13.55	14.10	14.18
* Project Notes—Taxfree (46% Taxable Equivalent)	14.44	15.00	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.85	14.95	15.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	14.00%	May	14.40%
15- 29 days	14.38	Jun.	14.25
30- 59 days	14.38	Jul.	14.20
60- 89 days	14.13	Aug.	14.10
90-179 days	13.75	Sep.	14.00
180-239 days	13.25	Oct.	13.75
240-270 days	13.25		

‡Industrial Paper—Prime			
30- 89 days	14.25%	†Federal Funds	
90-120 days	14.00	Effective Rate	14.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,998	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	– 4.5	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Feb '82	2.4%	3.6%	12.0%
Change in Producer Prices*	Mar '82n	– 1.2%	– 1.2%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '82	99,492	99,590	100,406
Unemployment as % of Civilian Labor Force†	Mar '82	9.0%	8.8%	7.3%
Personal Income*	Feb '82	$ 2,510	$ 2,498	$ 2,318
Leading Indicators Composite Index (1967=100)†	Feb '82	124.9	125.3	134.2
Industrial Production Index (1967=100) †	Feb '82	141.8	139.6	151.8
Net Change in Consumer Installment Credit†	Jan '82	$ 0.44	–$ 0.03	$ 1.21
U.S. Merchandise Trade Balance †	Feb '82	–$ 0.39	–$ 4.09	–$ 2.13
Plant and Equipment Expenditures*	2nd Q'82	$336.77	$345.46	$316.73
Private Housing Starts (Thousands of Units)*	Feb '82	953	895	1,294
New Construction Expenditures*	Feb '82	$ 230.4	$ 232.7	$ 254.5
Total Business Inventories†	Jan '82	$ 509.7	$ 511.8	$ 478.5
Total Business Sales†	Jan '82	$ 336.9	$ 342.3	$ 352.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

. . . As The Recession Lingers

Similarly, declines in the output of paperboard, used for packaging, widened in March. During the final week of the month, production of paperboard dipped almost six per cent below the comparable period in 1981; during the fourth week in February, in comparison, output was down 2.3 per cent on a year-over-year basis. So, too, declines are continuing in machine tool orders, nondefense factory orders, lumber production, railroad car loadings and truck tonnages—providing at times a seemingly endless array of negative economic news, as well as contradicting expectations of either an imminent, or robust, economic rebound.

But perhaps the most disturbing result of all this has been the sharp deterioration of labor market conditions. Here, too, earlier signs of strength were largely illusory, as both total employment and the length of the average workweek fell in March, while initial claims for unemployment insurance, the number of discouraged workers (those who do not even bother to look for work any longer) and the rate of unemployment itself, all ballooned. If these trends persist, it will not be too long before the term "double-digit," no longer applicable to the rate of inflation, is used instead to characterize unemployment. (See chart on page 1.)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/24/82)	134,405	+ 1,819	+23,525
New York City (3/24/82)	33,904	+ 921	+ 6,016
Commercial Paper (3/24/82)	170,008	− 517	+39,692

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/24/82)	199,793	− 24	+29,661
New York City (3/24/82)	55,372	− 631	+ 5,706

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/24/82)	471,714	+ 415	+48,620
New York City (3/24/82)	108,695	+ 36	+10,128

Financial Markets

	Thursday 4/8/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.51%	− .23	− .39
180-Day Bills†	13.99	− .14	+ .29
Longest Bills†	14.01	− .04	+ 1.21
Recent Issues:			
$14\frac{1}{8}$s 3/31/84	14.19	− .05	
14s 3/31/86	14.10	− .10	
$14\frac{5}{8}$s 2/15/92	13.90	− .12	
14s 11/15/11	13.36	− .15	
Municipals:			
Bond Buyer—20 Bond Index*	12.99%	− .14	+ 2.54
Blue List Total ($ Million)	$ 725	− $ 59	− $105
30-Day Visible Supply ($ Million)	$1,865	− $ 70	− $746
Total	$2,590	− $129	− $821
Corporates:			
Moody's Aa Composite (4/7/82)	15.15%	− .06	+ .86
30-Day Visible Supply ($ Million) ‡	$3,095	+ $139	NA
Stocks:			
Dow-Jones Averages:			
Industrials	842.94	+ 9.70	− 155.89
Transportation	348.84	+ 10.80	− 94.60
Utilities	110.52	+ 1.26	+ 2.37
65 Stocks	332.67	+ 5.79	− 58.45
Standard and Poor's 500 Stocks	116.22	+ 2.43	− 18.45
N.Y.S.E. Composite Index	66.89	+ 1.40	− 10.91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,692	+ 7,932	+ 3,906

* 46% Taxable equivalent 24.06%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

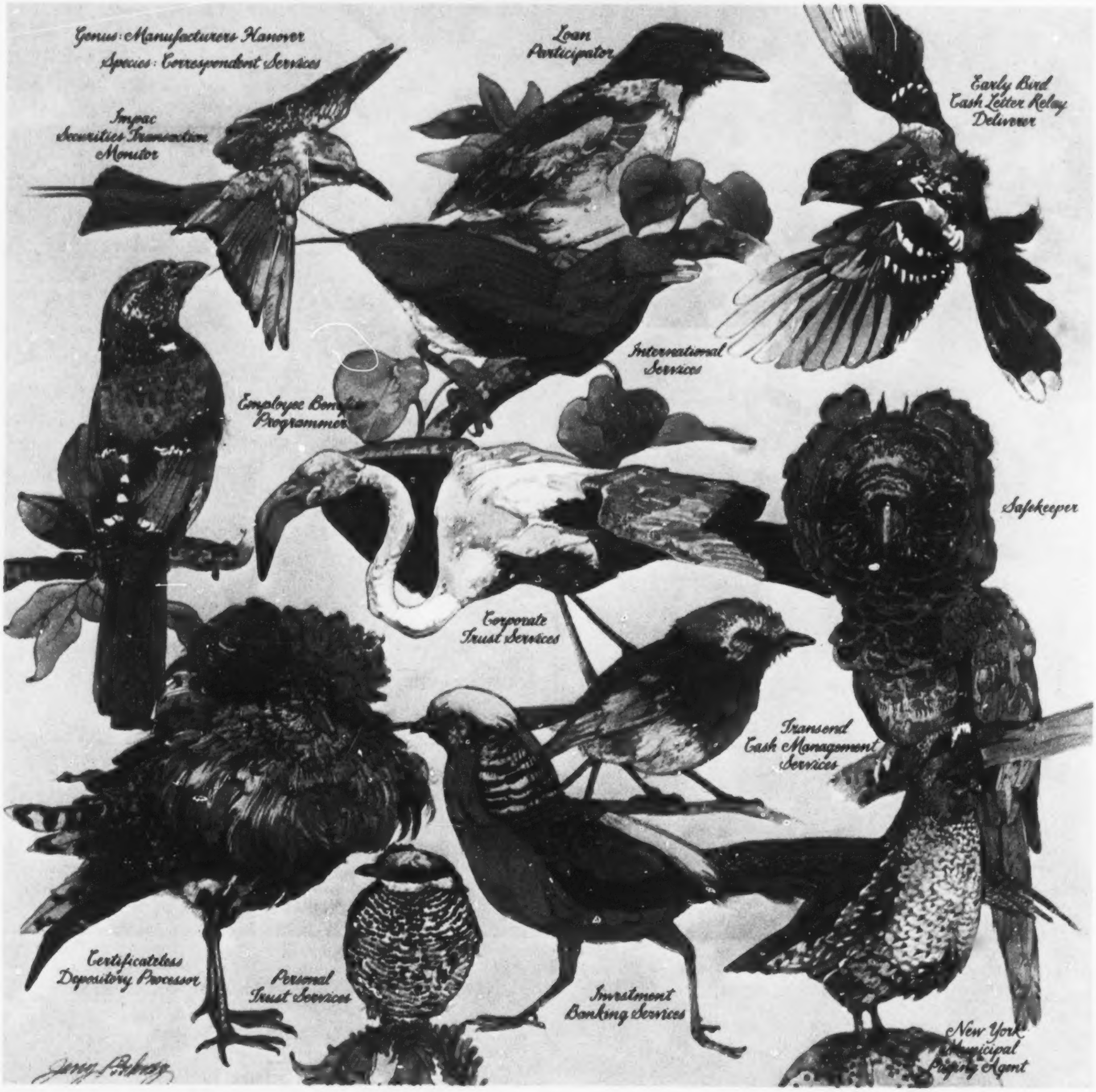
International Rates

	Thursday 4/8/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.00%	15.88%
1 month	15.56	15.38
3 month	15.56	15.38
6 month	15.63	15.38
1 year	15.38	15.19
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	14.70%
Long Term (7 to 15 yrs.)	14.90	14.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/8/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02188	45.71
Canada	.8112	1.2327
Denmark	.1214	8.2350
France	.1584	6.3120
Germany	.4133	2.4195
Italy	.0007520	1329.80
Japan	.004027	248.35
Mexico	.02172	46.03
Netherlands	.3733	2.6790
Switzerland	.5052	1.9795
U.K.	1.7558	.5695

THE CORRESPONDENT WATCHER'S GUIDE.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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 19, 1982

VOLUME XIX, NUMBER 16

The Consumer . . .

As spring pushes its way north, prospects for a vigorous April economic rebound are vanishing just about as quickly as the residual winter snow. Among the more recent signs that business conditions remain soggy and the economy mired in recession were the renewed decline in retail sales in March and the tiny rise in consumer installment debt outstanding in February. Not surprisingly, with the rate of unemployment soaring toward a postwar high, consumer confidence in the economic outlook has plunged to new lows causing households to pull in their horns and trim their spending plans (Financial Digest—April 12, 1982). While indicative of the broader economy-wide malaise which still persists, the travail of the nation's merchants should not, however, be allowed to mask the very substantial improvements in the strength of household finances which are now underway—and which should ultimately lead to an upturn in consumer spending.

According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, resumed their descent in March, falling 0.5 per cent month-over-month. This followed a sizable 2.6 per cent gain in February, largely a weather-related rebound from the extremely depressed January levels. Meanwhile, the Federal Reserve reported that consumer installment credit outstanding rose by only $75 million in February, about one-sixth the size of the $443 million gain posted the month before. Outstanding auto, credit card and mobile home debt all fell during the month; only debt associated with personal loans and home improvement credit showed any increase at all.

CHART I
CONSUMER INSTALLMENT DEBT OUTSTANDING (BAR) VS. INSTALLMENT DEBT LIQUIDATIONS AS % OF DISPOSABLE INCOME (DOT)

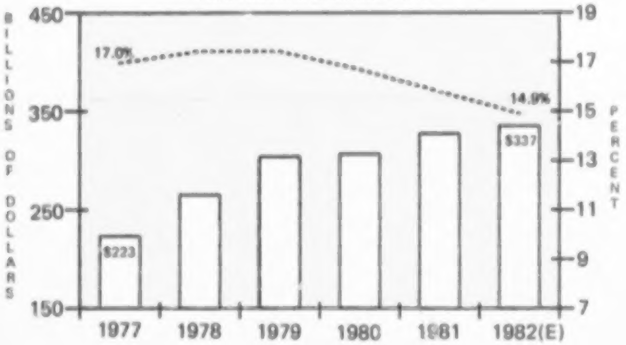
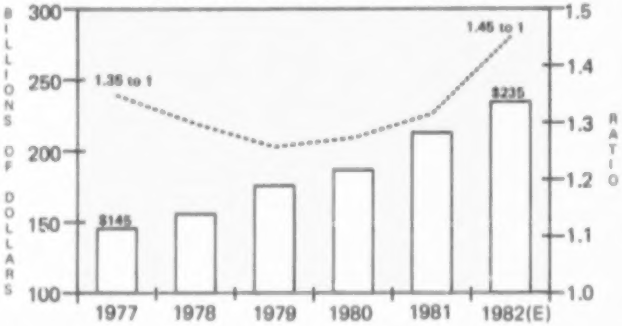


CHART II
CHANGE IN HOUSEHOLD LIQUID ASSETS (BAR) VS. RATIO OF TOTAL HOUSEHOLD LIQUID ASSETS TO TOTAL HOUSEHOLD LIABILITIES (DOT)



Superficially, these reports suggest that consumers remain unwilling to boost spending substantially in the face of deteriorating economic conditions. But perhaps more important is what they don't suggest, namely, that the consumer is unable to step up household purchases, as well. The softening of credit-assisted retail purchases in general, and auto sales in particular, has caused a pronounced slowing in the use of credit. For example, installment debt outstanding increased, on average, by less than $850 million per month between August, 1981 and February, 1982, almost 20 per cent below the average monthly rate of rise posted during the same period one year earlier. But even more striking is the fact that during these past six months, installment debt was acquired at a rate almost 65 per cent below the average monthly rise registered during the immediately preceding, February-August six-month period.

. . . Appears Able . . .

This cautious use of installment debt and still sizable disposable income gains have produced a noticeable strengthening of consumer finances in recent months—reversing the earlier deterioration of

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the traditional indicators of household financial health. One such measure, the ratio of installment debt outstanding to disposable incomes, averaged just about 15½ per cent during the first two months of 1982, its lowest level since early 1977, and well below the almost 18 per cent peak reached in the fall of 1979.

Not only has the overall size of consumer debt diminished in relative importance, so, too, has the repayment burden associated with this debt. Whereas installment debt repayments had been absorbing close to 18½ per cent of disposable income in the spring of 1979, by early 1982, despite the jump in consumer lending rates, only about 15 per cent of take-home pay had to be set aside to service installment debt.

Indeed, the debt service burden has fallen so much in recent months that a smaller proportion of take-home pay is now being used to service existing installment debt than at the bottom of the 1973-75 recession. At that time, despite sharp spending cutbacks by households, installment debt repayments were still absorbing approximately 15½ per cent of disposable income. As a result, when looking at installment debt alone, the capacity of households to step up spending, especially credit-assisted spending for such goods as autos and appliances, may actually be greater now than prior to the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/7/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	133.660	+ .209	+ 6.542
Loans to Depository Inst.	1.479	− .174	+ .592
Float	3.027	+ .972	+ .082
Total Reserve Bank Credit	147.465	+ 1.065	+ 6.415
Treasury Deposits with Federal Reserve Banks	3.938	+ .841	+ 1.075
Currency Outside Banks	126.898	+ .916	+ 6.219
Member Bank Reserves:			
Required	38.169	− .677	− .756
Excess (Deficiency)	.326	− .118	+ .189
Total Reserves Held	38.495	− .795	− .567
Net Borrowed Reserves	.987	− .022	+ .399
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.832	+ .007	− 7.206

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	453.6	+ 5.8‡	+ 5.1‡
M2 (March '82)	1,864.0	+ 9.1	+ 9.6
M3 (March '82)	2,234.9	+ 8.6	+ 10.4
L (December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 4/16/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.75%	12.95%	12.60%
* Federal Agencies	14.40	14.20	14.30
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.75	14.70	15.30

‡Finance Company Paper—Prime	
5- 14 days	14.88%
15- 29 days	14.38
30- 59 days	14.63
60- 89 days	14.25
90-179 days	14.13
180-239 days	13.50
240-270 days	13.50

‡* Bankers' Acceptances	
May	14.55%
Jun.	14.35
Jul.	14.15
Aug.	14.05
Sep.	14.00
Oct.	13.65

‡Industrial Paper—Prime	
30- 89 days	14.75%
90-120 days	14.38

†Federal Funds Effective Rate 15.25%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'81	$ 2,998	$ 2,965	$ 2,731
Gross National Product (1972 Dollars)*	4th Q'81	$ 1,498	$ 1,516	$ 1,486
Percent Change, Annual Rate	4th Q'81	− 4.5	1.4	3.8
Change in Consumer Prices (all urban consumers)*	Feb '82	2.4%	3.6%	12.0%
Change in Producer Prices*	Mar '82	− 1.2%	− 1.2%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '82	99,492	99,590	100,406
Unemployment as % of Civilian Labor Force†	Mar '82	9.0%	8.8%	7.3%
Personal Income*	Feb '82	$ 2,510	$ 2,498	$ 2,318
Leading Indicators Composite Index (1967=100)†	Feb '82	124.9	125.3	134.2
Industrial Production Index (1967=100) †	Mar '82n	141.2	142.3	152.1
Net Change in Consumer Installment Credit†	Feb '82n	$ 0.08	$ 0.44	$ 1.85
U.S. Merchandise Trade Balance †	Feb '82	−$ 0.39	−$ 4.09	−$ 2.13
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82n	947	924	1,318
New Construction Expenditures*	Feb '82	$ 230.4	$ 232.7	$ 254.5
Total Business Inventories†	Feb '82n	$ 509.0	$ 511.1	$ 484.1
Total Business Sales†	Feb '82n	$ 344.0	$ 336.7	$ 350.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

recovery from the 1973-75 recession. (See Chart I on page 1.)

. . . But Not Yet Willing . . .

Of course, installment debt alone does not present a complete picture of household indebtedness. To this must be added mortgage debt. Here, too, the use of debt has slowed drastically, in this case, because of the virtual collapse of the housing market. With housing starts barely exceeding one million units in 1981, and existing home sales moribund, mortgage debt outstanding on one-to-four family homes increased by only six per cent last year—the smallest annual rise since the late 1960s. And with mortgage interest rates remaining at prohibitive levels and home prices only slowly drifting lower, mortgage debt acquisition is likely to remain subdued for some time. This, in turn, will probably ensure that total household liabilities expand only very slowly again in 1982. They increased by eight per cent in 1981, well below the average double-digit rates of rise recorded during the preceding ten years.

But consumers have been strengthening not only the liability side of their balance sheets. They have paid equal attention to the asset side, adding substantially to their financial reserves. Paced by a surge in money market fund shares, household liquid assets (defined as cash, savings accounts, money market funds and Treasury securities)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/31/82)	133,186	– 1,219	+23,384
New York City (3/31/82)	32,868	– 1,036	+ 5,510
Commercial Paper (3/31/82)	166,138	– 3,870	+35,293

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/31/82)	202,624	+ 2,588	+29,429
New York City (3/31/82)	56,561	+ 1,189	+ 5,535

	Total Loans Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/31/82)	476,419	+ 4,790	+45,588
New York City (3/31/82)	111,383	+ 2,688	+ 8,044

Financial Markets

	Friday 4/16/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.35%	– .16	– .35
180-Day Bills†	13.98	– .01	+ .53
Longest Bills†	14.13	+ .12	+ 1.25
Recent Issues:			
14 1/8s 3/31/84	14.35	+ .16	
14s 3/31/86	14.08	– .02	
14 5/8s 2/15/92	13.78	– .12	
14s 11/15/11	13.20	– .16	
Municipals:			
Bond Buyer–20 Bond Index* (4/15/82)	12.54%	– .45	+ 1.84
Blue List Total ($ Million)	$ 708	– $ 17	– $119
30-Day Visible Supply ($ Million)	$2,032	+ $167	– $746
Total	$2,740	+ $150	– $865
Corporates:			
Moody's Aa Composite (4/15/82)	14.89%	– .26	+ .56
30-Day Visible Supply ($ Million) ‡	$1,848	–$1,247	NA
Stocks:			
Dow-Jones Averages:			
Industrials	843.42	+ .48	– 162.16
Transportation	346.57	– 2.27	– 100.81
Utilities	112.27	+ 1.75	+ 5.11
65 Stocks	332.97	+ .30	– 60.19
Standard and Poor's 500 Stocks	116.81	+ .59	– 17.89
N.Y.S.E. Composite Index	67.26	+ .37	– 10.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,438	– 4,254	– 3,457

* 46% Taxable equivalent 23.22%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 4/16/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.75%	15.00%
1 month	15.50	15.56
3 month	15.50	15.56
6 month	15.50	15.63
1 year	15.19	15.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.80%
Long Term (7 to 15 yrs.)	14.85	14.90

FOREIGN EXCHANGE SPOT RATES New York Opening (4/16/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02181	45.85
Canada	.8180	1.2225
Denmark	.1217	8.2150
France	.1585	6.3105
Germany	.4120	2.4270
Italy	.0007495	1334.20
Japan	.004033	247.95
Mexico	.02176	45.96
Netherlands	.3714	2.6925
Switzerland	.5044	1.9825
U.K.	1.7555	.5696

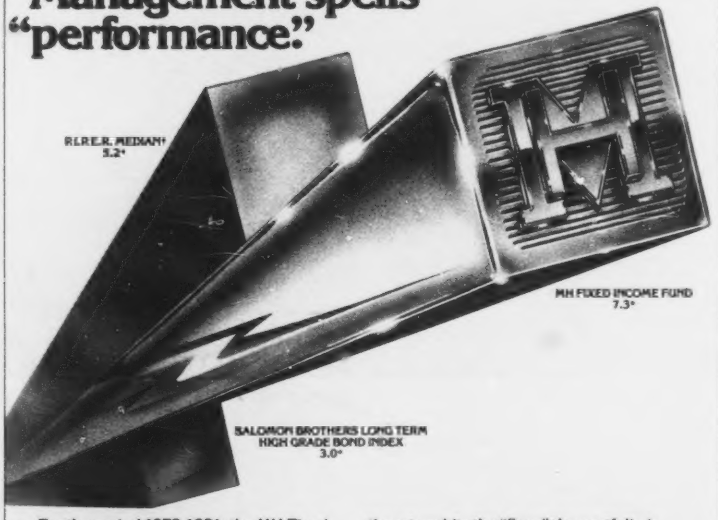
posted a strong gain in 1981—and now stand at record high levels, whether looked at in current dollars or after adjustment for inflation. What is more, with their growth currently running well ahead of that of household debt, liquid assets alone may soon exceed total household liabilities by almost 50 per cent. (See Chart II on page 1.)

. . . To End This Recession

With debt burdens trimmed and short-term financial assets soaring, the consumer now appears in a good position to shrug off the negative effects of slumping bond, equity and home prices. But, in any event, the dampening impact of these factors on spending may have been exaggerated. In the case of bonds, for example, the buying habits of many long-term investors are likely to be little affected by fluctuations in the market value of their bond holdings, as long as the flow of interest income from these securities is uninterrupted. Barring borrower default, these payments continue irrespective of fluctuations in the market value of the fixed income portfolio. Even the downturn in equities prices, which should have a more immediate impact on spending decisions since they are more widely held by the public, may have been unduly emphasized. The share of total household investments devoted to corporate equities as diminished sharply over time—from more than 50 per cent in the late 1960s, to 30 per cent by the end of 1981.

Although the value of bond and equity holdings may be diminished, with the rate of inflation moderating, future disposable income gains will buoy consumer buying power even more than in the past. What is more, the recent improvements in household finances allow significant leeway for stepped-up spending. For example, simply lifting the installment debt outstanding-to-disposable income ratio back into the 17 to 18 per cent range could boost retail sales by at least $40 billion. If half of that was devoted to auto sales, some two million new automobile sales would occur at prevailing prices. The ability to spend is there, but is the will? ■

The Manufacturers Hanover track record in Fixed Income Management spells "performance."



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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1981.
†Pension and Investments Performance Evaluation Report—Pooled Fixed Income Funds of Banks and Insurance Companies

4/26/82

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 26, 1982 VOLUME XIX, NUMBER 17

Interest Rate Competition . . .

Sometimes lost amid the discussions in the United States about what high interest rates are doing to the U.S. economy is their impact abroad. These effects have not only been widespread but profound as well. U.S. financial assets continue to enjoy a substantial real interest rate advantage over those denominated in most other currencies, drawing in a flood of short-term investment funds from elsewhere (see table). French interest rates are the principal exception. Last week the real interest rate on three-month eurofranc deposits was 9.3 per cent, compared with an 8.4 per cent real rate on three-month eurodollar deposits. This reflects France's recent moves to protect the franc against downward pressures created by expansive economic policies. Italy, too, has retained its long-time high interest rate policy to encourage domestic investment.

Country	3-Month Eurocurrency Rate (as of 4/21/82)	—	Most Recent 12-Month Percent Change In CPI	=	Real Interest Rate
United States	15.1		6.7		8.4
United Kingdom	13.8		11.0		2.8
France	23.8		14.5		9.3
Japan	7.1		3.1		4.0
Switzerland	5.0		4.8		0.2
West Germany	8.9		5.3		3.6
Italy	25.0		16.5		8.5

Eurocurrency interest rates are high in response to the strength of the dollar and lofty eurodollar interest rates as the developed countries attempt to defend their currency exchange rates. Last month, for example, in an attempt to contain a decline in the French franc, three-month eurofranc deposit rates rose from 16.75 per cent on March 15 to 24.25 per cent on April 1. By last week this rate had declined to the 22 per cent range. This kind of wide ranging and rapid fluctuation has been characteristic of most eurocurrency rates as these countries struggle to adjust to U.S. dollar interest rate changes.

. . . May Be Easing

Recently, however, a few countries have begun to change their monetary policies under increasing domestic pressures generated over the past year or more by slow growth—recession, in some cases—and skyrocketing unemployment rates resulting from their restrictive monetary policies. The Swiss and German central banks cut their base rates in mid-March reflecting domestic economic conditions. Relatively low inflation rates in these two countries in an environment of low growth and high unemployment have permitted a mild relaxation in monetary policy. The Swiss National Bank cut its discount rate from six to 5.5 per cent while the Bundesbank reduced its special Lombard rate from 10.0 to 9.5 per cent. These cuts were reflected across the spectrum of mark and Swiss franc interest rates.

For example, the three-month euroswiss deposit rate fell from 6.6 per cent in mid-March to five per cent last week and the three-month euromark deposit rate fell from 9.5 per cent to 8.9 per cent in the same period. At the longer end of the market, German and Swiss government bond yields fell as well. Both countries have intervened in the foreign exchange markets to support their currencies against the short-term effects of these interest rate moves.

Exchange Rates Are Volatile . . .

As might be expected, the rapid and varied changes in interest rates over the past month have been reflected in volatile and unstable foreign exchange markets. The strong performance of U.S. interest rates remains the principal short-run determinant of the dollar. On a trade-weighted basis the dollar appreciated by 2½ per cent between mid-March and mid-April. This surging strength was apparent in the spot exchange rate for the dollar against the other major trading currencies.

The German mark fell by over two per cent against the dollar in the last month before making a small recovery last week, thus ending down about one per cent from one month ago. The Swiss franc has fallen by more than four per cent in the last month in response to the cuts in their interest rates. The

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greater fall of the Swiss franc compared with the mark resulted from moves by the central bank to inject liquidity into the economy and from policies aimed at adjusting the exchange rate with the mark in order to improve export trade competitiveness. The French franc declined 2¾ per cent against the dollar over the past month, reflecting continuing concern about government economic policies and high rates of inflation—notwithstanding substantial intervention in the exchange markets, sharply higher interest rates and a tightening of exchange rate controls on March 25. The Italian lira weakened against the dollar by over three per cent in the last month, as well.

Despite heavy intervention by the Bank of Japan, the Japanese yen remains substantially undervalued against the dollar. It fell from 240 to a two-year low of 248 to the dollar, a drop of almost 3½ per cent, between mid-March and mid-April before recovering to 242 to the dollar last week. Interest rate differentials have played a principal role in the weakness of the yen as the Japanese government has pursued a policy of low domestic interest rates. The Ministry of Finance has also taken a series of steps to control the outflow of capital from Japan.

The British pound fell by almost 2¼ per cent, hitting a 4½-year low against the dollar on April 6 ($1.75 to the pound) in spite of high sterling interest rates. Since then it has recovered marginally. Although the pound had been falling in recent months, the Falkland Islands crisis has added to the pound's difficulties.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/14/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.603	+ .943	+ 6.098
Loans to Depository Inst.	1.337	– .142	+ .195
Float	3.480	+ .453	– .030
Total Reserve Bank Credit	148.641	+ 1.176	+ 5.336
Treasury Deposits with Federal Reserve Banks	3.626	– .312	+ .593
Currency Outside Banks	128.342	+ 1.444	+ 6.731
Member Bank Reserves:			
Required	38.389	+ .220	– 1.338
Excess (Deficiency)	.266	– .060	– .135
Total Reserves Held	38.655	+ .160	– 1.473
Net Borrowed Reserves	.917	– .070	+ .325
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.760	– 1.072	– 8.411

Monetary Aggregates†			% Change Since Three Months Ago*	% Change Since Year Ago
M1		452.5	+ 4.4‡	+ 4.9‡
M2	**(March '82)**	1,864.3	+ 9.2	+ 9.6
M3	**(March '82)**	2,235.4	+ 8.7	+ 10.5
L	**(December '81)**	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 4/23/82	3 Months	6 Months	1 Year
‡**U.S. Treasury Bills**	12.15%	12.33%	12.14%
* **Federal Agencies**	13.55	13.95	14.03
* **Project Notes—Taxfree (46% Taxable Equivalent)**	13.43	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* **Secondary Market—Prime**	14.05	14.10	14.25

‡**Finance Company Paper—Prime**	
5- 14 days	13.75%
15- 29 days	13.75
30- 59 days	13.75
60- 89 days	13.63
90-179 days	13.50
180-239 days	13.00
240-270 days	13.00

‡* **Bankers' Acceptances**	
May	14.00%
Jun.	13.80
Jul.	13.65
Aug.	13.55
Sep.	13.35
Oct.	13.20

‡**Industrial Paper—Prime**	
30- 89 days	14.00%
90-120 days	13.75

†**Federal Funds Effective Rate** 14.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82n	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82n	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82n	– 3.9	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82n	– 3.6%	2.4%	7.2%
Change in Producer Prices*	Mar '82	– 1.2%	– 1.2%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '82	99,492	99,590	100,406
Unemployment as % of Civilian Labor Force†	Mar '82	9.0%	8.8%	7.3%
Personal Income*	Mar '82n	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100)†	Feb '82	124.9	125.3	134.2
Industrial Production Index (1967=100) †	Mar '82	141.2	142.3	152.1
Net Change in Consumer Installment Credit†	Feb '82	$ 0.08	$ 0.44	$ 1.85
U.S. Merchandise Trade Balance †	Feb '82	–$ 0.39	–$ 4.09	–$ 2.13
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Feb '82	$ 230.4	$ 232.7	$ 254.5
Total Business Inventories†	Feb '82	$ 509.0	$ 511.1	$ 484.1
Total Business Sales†	Feb '82	$ 344.0	$ 336.7	$ 350.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

. . . Reflecting Uncertainty

The erratic state of the foreign exchange markets again is causing concern about the viability of the European Monetary System (EMS). As each of the member countries attempts to adjust its interest and foreign exchange rates to the realities of the international financial markets, the wide discrepancies in economic performance, particularly inflation rates, intensify pressures on the system. Hence, the prospects for another readjustment of currency parities become increasingly likely. Indeed, the EMS, itself, could disintegrate if a measure of stability does not return to the marketplace.

Further, the dispute between Argentina and Great Britain has contributed to global economic uncertainty and political instability which, in addition to unsettling global financial markets, has given a temporary fillip to the price of gold. Gold prices rose over 17 per cent between mid-March and mid-April to $366 per ounce before easing; they now stand 11 per cent above mid-March levels.

The rest of the world is eagerly watching the ongoing debate about the U.S. budget deficit and its impact on U.S. interest rates. The necessity of sustaining high domestic and euromarket interest rates in order to prevent huge capital outflows, falling exchange rates and rising import costs has taken a major toll of the other developed nations in terms of low growth, unemployment and rising government deficits. All nations are looking forward expectantly to the United States to lead the way back to economic recovery and stability.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/7/82)	132,026	– 1,161	+22,804
New York City (4/7/82)	33,515	+ 647	+ 6,099
Commercial Paper (4/7/82)	168,082	+ 1,944	+35,560

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/7/82)	204,370	+ 1,797	+32,755
New York City (4/7/82)	57,217	+ 656	+ 6,8[illegible]4

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/7/82)	479,326	+ 2,807	+54,086
New York City (4/7/82)	111,256	– 118	+11,349

Financial Markets

	Friday 4/23/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.56%	– .79	– 1.44
180-Day Bills†	12.96	– 1.02	– .97
Longest Bills†	13.42	– .71	+ .17
Recent Issues:			
$13^{7}/_{8}$s 4/30/84 (When Issued)	13.83	NA	
14s 3/31/86	13.82	– .26	
$14^{5}/_{8}$s 2/15/92	13.60	– .18	
14s 11/15/11	13.07	– .13	
Municipals:			
Bond Buyer–20 Bond Index* (4/22/82)	12.29%	– .25	+ 1.49
Blue List Total ($ Million)	$ 756	+ $ 48	– $109
30-Day Visible Supply ($ Million)	$2,570	+ $538	+ $318
Total	$3,326	+ $586	+ $209
Corporates:			
Moody's Aa Composite (4/22/82)	14.79%	– .10	+ .20
30-Day Visible Supply ($ Million) ‡	$1,138	– $710	NA
Stocks:			
Dow-Jones Averages:			
Industrials	862.16	+ 18.74	– 158.19
Transportation	345.61	– .96	– 96.19
Utilities	114.59	+ 2.32	+ 8.12
65 Stocks	337.77	+ 4.80	– 56.39
Standard and Poor's 500 Stocks	118.64	+ 1.83	– 16.50
N.Y.S.E. Composite Index	68.25	+ .99	– 9.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	61,528	+13,090	+ 2,140

* 46% Taxable equivalent 22.76%.

‡ Series redefined: Historical data not available.

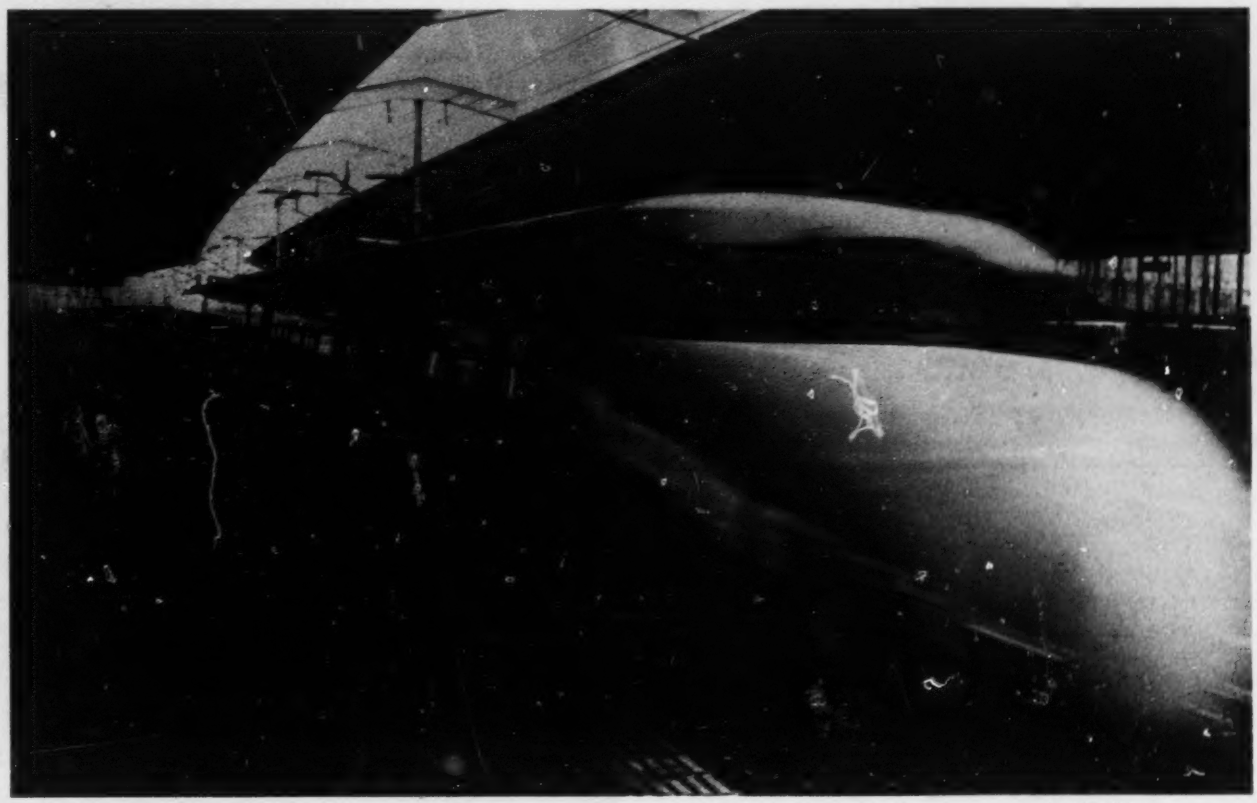
† Bond equivalent.

International Rates

	Friday 4/23/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.00%	15.75%
1 month	14.88	15.50
3 month	14.88	15.50
6 month	14.88	15.50
1 year	14.63	15.19
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/23/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02206	45.33
Canada	.8167	1.2245
Denmark	.1229	8.1350
France	.1597	6.2600
Germany	.4169	2.3985
Italy	.0007563	1322.20
Japan	.004118	242.85
Mexico	.02165	46.19
Netherlands	.3757	2.6615
Switzerland	.5070	1.9723
U.K.	1.7712	.5646



Bullet Train, Tokyo

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 3, 1982 VOLUME XIX, NUMBER 18

The Impact Of Recession . . .

As if the current recession had not already claimed a sufficiently heavy toll in terms of widespread joblessness, depressed household and farm incomes as well as personal and small business bankruptcies, it now appears that corporate profits are becoming one of the biggest casualties of all. Confronted with the challenges of lackluster final sales due to recession, weak productivity growth, lofty borrowing costs and a rapidly emerging climate of disinflation, U.S. corporations have been taking it on the chin when it comes to earnings performance. And when you consider that the quality of earnings has been soggy at best, being largely dependent on temporary inventory profits and inadequate depreciation allowances, an even bleaker picture emerges.

For example, preliminary estimates by this Bank suggest that before-tax profits fell by almost $50 billion during the January-March period to a seasonally adjusted $165 billion annual rate. That's a plunge of more than 22 per cent quarter-over-quarter. If these numbers hold up, it would be the largest quarterly profits drop posted in the postwar era, in both absolute and relative terms—not to mention the second quarterly decline in a row. Even compared with depressed year-earlier levels, this year's estimated first quarter earnings performance was abysmal, skidding a huge 35 per cent when measured on a year-over-year basis. After-tax earnings also fell, by approximately $30 billion during the quarter, to a seasonally adjusted $113 billion annual rate.

CHART I
AFTER-TAX CORPORATE PROFITS (BAR) VS. INVENTORY PROFITS AS % OF AFTER-TAX PROFITS (DOT)

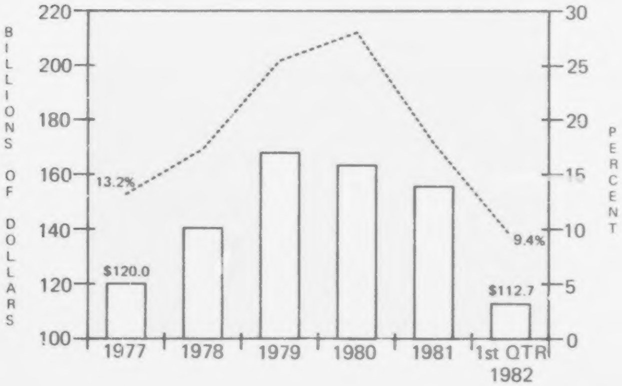
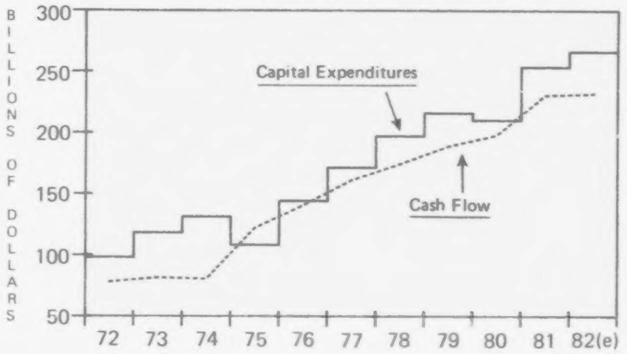


CHART II
NONFINANCIAL CORPORATIONS: CAPITAL EXPENDITURES VS. CASH FLOW



This earnings plunge comes on top of the already large drop registered in the fourth quarter of 1981. At that time, with profitability deteriorating in such industries as petroleum, steel, autos and airlines, before-tax corporate earnings slid $21.6 billion to a seasonally adjusted $213 billion annual rate. Putting these results together brings the two-quarter earnings drop to a record $70 billion, paling by comparison its nearest rival for this dubious honor—the $35 billion, or 25 per cent, decline in before-tax profits which occurred during the last two quarters of the 1973-75 recession.

. . . And Disinflation . . .

Besides such factors as sluggish final sales and further escalations in labor and financing costs, first quarter earnings were depressed by disinflation, for there was a steep drop in the size of inventory profits. While many businesses have for some time now been finding themselves increasingly unable to pass along cost increases by boosting product prices, they are now finding that the growth of inventory profits, which had for so long masked a serious erosion of earnings quality by maintaining their size, has ceased. Such profits, which arise from inflation-driven gains in the value of inventories

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held in stock, have now begun to shrink, producing just the opposite results: boosting the quality slightly—but at the expense of deflating the overall size of earnings.

Whereas inventory profits had run at a seasonally adjusted $40 billion annual rate in the first quarter of 1981 (comprising just about one-quarter of total after-tax profits), by the first quarter of 1982, with inventories pared and inflation rates subsiding, such profits were estimated to be running at a seasonally adjusted $10 billion annual rate. At this level, they comprised less than ten per cent of total after-tax earnings. And since after-tax earnings dropped by about $60 billion between these two periods, fully one-half of this decline can be traced to the impact of the sharp deceleration in the rate of inflation on inventory profits. (See Chart I.)

. . . Spells Trouble . . .

The virtual elimination of this inflation "dividend," accompanied by another deterioration of basic profitability, served to magnify the widespread existence of corporate illiquidity. For even after adjustment for inventory gains, corporate profits nose-dived. With nonfarm business sector hourly compensation rates advancing at an 8.4 per cent seasonally adjusted annual rate in the first quarter compared with quarter-earlier levels and productivity rising only slightly, unit labor costs continued their ascent. They shot up at an 8.1 per cent seasonally adjusted annual rate during the January-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/21/82	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.553	+ 3.950	+ 7.172
Loans to Depository Inst.	1.659	+ .322	+ .795
Float	2.339	− 1.199	− 1.179
Total Reserve Bank Credit	152.102	+ 3.403	+ 5.900
Treasury Deposits with Federal Reserve Banks	4.258	+ .632	+ .289
Currency Outside Banks	129.461	+ 1.119	+ 6.728
Member Bank Reserves:			
Required	40.250	+ 1.861	− .568
Excess (Deficiency)	.123	− .201	+ .054
Total Reserves Held	40.373	+ 1.660	− .514
Net Borrowed Reserves	1.377	+ .518	+ .731
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.167	− .593	− 9.424

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	454.5	+ 4.5‡	+ 4.8‡
M2 (March '82)	1,864.7	+ 9.3	+ 9.6
M3 (March '82)	2,235.7	+ 8.8	+ 10.5
L (December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 4/30/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.20%	12.37%	12.12%
* Federal Agencies	13.25	13.45	13.68
* Project Notes—Taxfree (46% Taxable Equivalent)	13.43	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.15	14.05	14.75

‡Finance Company Paper—Prime	
5- 14 days	13.75%
15- 29 days	13.75
30- 59 days	13.88
60- 89 days	14.00
90-179 days	13.75
180-239 days	13.00
240-270 days	13.00

‡* Bankers' Acceptances	
May	13.90%
Jun.	13.80
Jul.	13.60
Aug.	13.50
Sep.	13.35
Oct.	13.20

‡Industrial Paper—Prime	
30- 89 days	14.25%
90-120 days	14.25

†Federal Funds Effective Rate 15.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 3.9	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82	− 3.6%	2.4%	7.2%
Change in Producer Prices*	Mar '82	− 1.2%	− 1.2%	13.2%
Civilian Employment (Thousands of Persons) †	Mar '82	99,492	99,590	100,406
Unemployment as % of Civilian Labor Force †	Mar '82	9.0%	8.8%	7.3%
Personal Income*	Mar '82	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100) †	Mar '82n	124.4	125.0	135.8
Industrial Production Index (1967=100) †	Mar '82	141.2	142.3	152.1
Net Change in Consumer Installment Credit †	Feb '82	$ 0.08	$ 0.44	$ 1.85
U.S. Merchandise Trade Balance †	Mar '82n	−$ 2.64	−$ 1.20	−$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Feb '82	$ 230.4	$ 232.7	$ 254.5
Total Business Inventories †	Feb '82	$ 509.0	$ 511.1	$ 484.1
Total Business Sales †	Feb '82	$ 344.0	$ 336.7	$ 350.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

March, 1982 period, higher than the seven per cent gain in unit labor costs which occurred in the same period of 1981.

But in marked contrast with this year-earlier period, the business environment by early 1982 was no longer conducive to offsetting cost increases by raising product prices. In early 1981, both the "real" economy and prices were expanding either at or near double-digit annual rates. Now, with the economy still contracting (and likely to remain weak if the March decline in the index of leading economic indicators is any reliable harbinger of the future) and prices actually easing, businesses are finding that cost increases are being absorbed by the bottom line, rather than by the consumer. As a result, profits will be pressed even harder, placing corporate earnings squarely in the middle of an ever-onerous "price-cost" squeeze.

. . . For Corporate Profits

What all this means is that disinflation presents corporate treasurers with just about as much of a challenge as earlier periods of rapid price gains. The evaporation of inventory profits, together with a growing inability to pass along escalating costs, can only imply that the growth of internally-generated funds this year will remain sluggish at best, and cease at worst. This would leave another sizable gap between anticipated capital spending and corporate cash flow. In turn, this ensures that borrowing requirements will remain hefty, boding ill for any

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/14/82)	131,076	– 947	+21,164
New York City (4/14/82)	33,049	– 466	+ 4,655
Commercial Paper (4/14/82)	168,563	+ 486	+35,700

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/14/82)	203,683	– 606	+32,177
New York City (4/14/82)	56,948	– 269	+ 6,824

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/14/82)	477,992	– 1,251	+49,629
New York City (4/14/82)	111,715	+ 459	+10,089

Financial Markets

	Friday 4/30/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.85%	+ .29	– 2.54
180-Day Bills†	13.46	+ .50	– 1.75
Longest Bills†	13.62	+ .20	– 1.34
Recent Issues:			
13⁷/₈s 4/30/84	13.90	+ .07	
14s 3/31/86	13.87	+ .05	
14⁵/₈s 2/15/92	13.82	+ .22	
14s 11/15/11	13.31	+ .24	
Municipals:			
Bond Buyer- 20 Bond Index* (4/29/82)	11.97%	– .32	+ 1.03
Blue List Total ($ Million)	$ 848	+ $ 92	+ $ 38
30-Day Visible Supply ($ Million)	$1,623	– $947	– $813
Total	$2,471	– $855	– $775
Corporates:			
Moody's Aa Composite (4/29/82)	14.77%	– .02	– .03
30-Day Visible Supply ($ Million) ‡	$1,191	+ $ 53	NA
Stocks:			
Dow-Jones Averages:			
Industrials	848.36	– 13.80	– 147.23
Transportation	343.13	– 2.48	– 80.73
Utilities	113.49	– 1.10	+ 7.97
65 Stocks	333.61	– 4.16	– 49.63
Standard and Poor's 500 Stocks	116.44	– 2.20	– 15.84
N.Y.S.E. Composite Index	67.08	– 1.17	– 9.67
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,458	– 8,070	+ 1,572

* 46% Taxable equivalent 22.17%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 4/30/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.00%	15.00%
1 month	15.00	14.88
3 month	14.88	14.88
6 month	14.88	14.88
1 year	14.63	14.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	14.60%
Long Term (7 to 15 yrs.)	14.75	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/30/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02268	44.10
Canada	.8203	1.2190
Denmark	.1259	7.9405
France	.1644	6.0835
Germany	.4285	2.3335
Italy	.0007715	1296.20
Japan	.004245	235.55
Mexico	.02154	46.43
Netherlands	.3865	2.5870
Switzerland	.5115	1.9550
U.K.	1.7889	.5590

5/12/82

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 10, 1982 VOLUME XIX, NUMBER 19

On The Horizon . . .

Just as it was beginning to appear almost certain that the recession would persist well beyond midyear, signs have been spotted which suggest that the economy has bottomed and that a recovery is on the way. To be sure, there was another slide in the index of leading economic indicators in March. However, this is not necessarily inconsistent with an imminent recovery because, in marked contrast with its ability to give plenty of warning regarding the onset of a recession, the composite index of leading indicators has lately provided little advance notice that business upturns are on the horizon. The time elapsed between rebounds in the leading indicators index and business activity has shortened considerably in recent years, limiting the usefulness of the overall index—but at the same time, enhancing the importance of trends in its components.

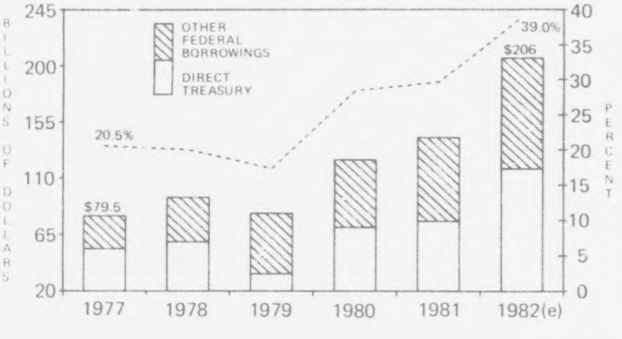
According to the Commerce Department, the index of leading economic indicators declined by 0.5 per cent in March, following an equal-sized drop in February and a 1.2 per cent decline in January. This marked the eleventh month in a row in which the index has fallen—one month short of the record twelve consecutive monthly declines posted during the 1973-75 recession. But while pointing toward soggy business conditions in the near term, this latest drop should not be overemphasized.

While it is true that this index has always turned up prior to the onset of recovery, it is also a fact that in recent years trends in the leading indicators index during recoveries have more closely coincided with economic activity, rather than preceded it. Whereas the average length of time elapsed between the initial upturn in the leading indicators composite and the economy was more than three months in the seven postwar recoveries, this average masks widely divergent and shifting patterns. Prior to the 1960s, the average advance notice time was not far from a half year; during the last two recessions (in 1973-75 and 1980), the elapsed time between a rise in the leading indicators and the onset of a recovery dropped to about one month.

. . . Are Glimmers Of Hope . . .

Nor is this the only reason why the March drop in the index may not be such bad news after all. With trends in the overall index now providing only the shortest possible indication of recovery, changes in the components of the index have assumed added importance. To be sure, six of the ten available indicators contributed to the overall decline in March, seemingly grim news when compared with the fact that only five indicators declined the month before. These included an upswing in initial claims for unemployment insurance and declines in the average workweek and crude materials prices—labor market and price indicators which appear to parallel, rather than lead, the pace of economic activity. More important were the ones that rose: New (constant dollar) orders for both consumer and capital goods, building permits and the inflation-adjusted, broader money supply, M2, all went up in March compared with February.

TOTAL FEDERAL AND FEDERAL-RELATED BORROWINGS (BAR) VS. BORROWINGS AS % OF TOTAL FUNDS RAISED (DOT)



Individually, increases in these four indicators have tended to precede both advances in the overall index and the economy. In the case of the latter, the lead time is about three months, or twice the length of time an upturn in the overall index has, in recent years, preceded recovery. With the exception of new

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orders for plant and equipment, these components of the index began to turn up this past January or February. Furthermore, the simultaneous advance of these four indicators that occurred in March may be even more significant. During the past 20 years, such an event has either coincided with the trough of the business cycle or preceded it by not more than 60 days.

. . . And Despair

While there has been little doubt that a business recovery would eventually get under way, there remains significant concern as to its staying power. The combination of large budget deficits and monetary policy restraint appears to be incompatible with a robust private sector recovery. In an era of unhinged short-term interest rates and volatile bond markets, the collision of massive Federal government credit demands and hefty private credit needs will threaten to push interest rates even higher than their current lofty heights—thus short-circuiting the nascent recovery.

Unfortunately, developments in Washington in recent days have done little to derail prospects that this bleak outlook will soon become reality. The failure of the Administration and Congress to hammer out a bipartisan budget compromise for fiscal year 1983 and beyond raises the distinct possibility that the budget deficit may soon spin out

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/28/82	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	137.428	– 1.125	+ 8.915
Loans to Depository Inst.	1.822	+ .163	– .456
Float	1.949	– .419	– 1.340
Total Reserve Bank Credit	150.761	– 1.370	+ 6.086
Treasury Deposits with Federal Reserve Banks	4.788	+ .530	+ 1.252
Currency Outside Banks	127.650	– 1.811	+ 6.550
Member Bank Reserves:			
Required	40.111	– .139	– .988
Excess (Deficiency)	.233	+ .081	+ .103
Total Reserves Held	40.344	– .058	– .885
Net Borrowed Reserves	1.412	+ .064	– .561
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.775	– .392	–10.950

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	449.5	+ 3.7‡	+ 4.6‡
M2 (March '82)	1,864.7	+ 9.3	+ 9.6
M3 (March '82)	2,235.4	+ 8.7	+ 10.5
L (December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 5/7/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.20%	12.25%	12.00%
* Federal Agencies	13.15	13.40	13.90
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	13.80	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.65	13.50	14.50

‡Finance Company Paper—Prime	
5- 14 days	14.50%
15- 29 days	14.25
30- 59 days	13.63
60- 89 days	13.25
90-179 days	12.75
180-239 days	12.75
240-270 days	12.75

‡* Bankers' Acceptances	
Jun.	13.90%
Jul.	13.50
Aug.	13.10
Sep.	13.00
Oct.	12.95
Nov.	12.60

‡Industrial Paper—Prime	
30- 89 days	13.88%
90-120 days	13.50

†Federal Funds Effective Rate 14.90%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.9	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82	– 3.6%	2.4%	7.2%
Change in Producer Prices*	Mar '82	– 1.2%	– 1.2%	13.2%
Civilian Employment (Thousands of Persons)†	Apr '82n	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force†	Apr '82n	9.4%	9.0%	7.3%
Personal Income*	Mar '82	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100)†	Mar '82	124.4	125.0	135.8
Industrial Production Index (1967=100)†	Mar '82	141.2	142.3	152.1
Net Change in Consumer Installment Credit†	Feb '82	$ 0.08	$ 0.44	$ 1.85
U.S. Merchandise Trade Balance†	Mar '82	–$ 2.64	–$ 1.20	–$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Mar '82n	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Feb '82	$ 509.0	$ 511.1	$ 484.1
Total Business Sales†	Feb '82	$ 344.0	$ 336.7	$ 350.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

of control, averaging some $200 billion annually during the fiscal 1983-85 period. Deficits of this size would imply total Federal and Federal-related borrowings (including the activities of Federally-sponsored agencies and Federal loan guarantees) of almost $300 billion in fiscal 1983 alone.

What this means is that the financial markets will soon be wrestling with a deluge of new Treasury issues. This will intensify credit competition among all other borrowers, "crowding out" some while accommodating others—but at sky-high cost. Already, Treasury borrowing requirements are in the process of leaping upward, despite a fiscal year-to-date budget deficit which, so far, is well below initial expectations. With the Treasury expected to raise about $15½ billion in net new cash in the current quarter (compared with a net pay-down of Federal debt in second-quarter, 1981) and as much as $50 billion in the third quarter (more than twice year-ago levels), total Federal and related borrowings will probably exceed $200 billion for the calendar year as a whole. As shown in the chart on the first page, if these numbers hold up, such borrowings would account for just about 40 per cent of total funds raised in 1982, a new record, absorbing over 90 per cent of net national savings. (See MHT's Economic Report for April, 1982.)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/21/82)	132,176	+ 1,081	+20,878
New York City (4/21/82)	33,627	+ 578	+ 5,326
Commercial Paper (4/21/82)	171,468	+ 2,905	+36,029

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/21/82)	204,584	+ 901	+31,945
New York City (4/21/82)	57,368	+ 420	+ 6,727

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/21/82)	479,065	+ 1,097	+51,352
New York City (4/21/82)	110,978	– 736	+10,397

Financial Markets

	Friday 5/7/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.58%	– .27	– 4.72
180-Day Bills†	12.03	– 1.43	– 4.92
Longest Bills†	13.20	– .42	– 2.90
Recent Issues:			
$13\frac{7}{8}$s 4/30/84	13.56	– .34	
14s 3/31/86	13.52	– .35	
$13\frac{3}{4}$s 5/15/92 (When Issued)	13.47	NA	
14s 11/15/11	13.02	– .29	
Municipals:			
Bond Buyer–20 Bond Index* (5/6/82)	12.04%	+ .07	+ 1.14
Blue List Total ($ Million)	$ 928	+ $ 80	+ $207
30-Day Visible Supply ($ Million)	$2,278	+ $655	+ $350
Total	$3,206	+ $735	+ $557
Corporates:			
Moody's Aa Composite (5/6/82)	14.86%	+ .09	– .27
30-Day Visible Supply ($ Million) ‡	$1,610	+ $419	NA
Stocks:			
Dow-Jones Averages:			
Industrials	869.20	+ 20.84	– 107.20
Transportation	352.90	+ 9.77	– 65.50
Utilities	116.95	+ 3.46	– 11.39
65 Stocks	342.53	+ 8.92	– 35.18
Standard and Poor's 500 Stocks	119.47	+ 3.03	– 12.11
N.Y.S.E. Composite Index	68.76	+ 1.68	– 7.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	59,838	+ 6,380	+ 15,584

* 46% Taxable equivalent 22.30%.

‡ Series redefined: Historical data not available.

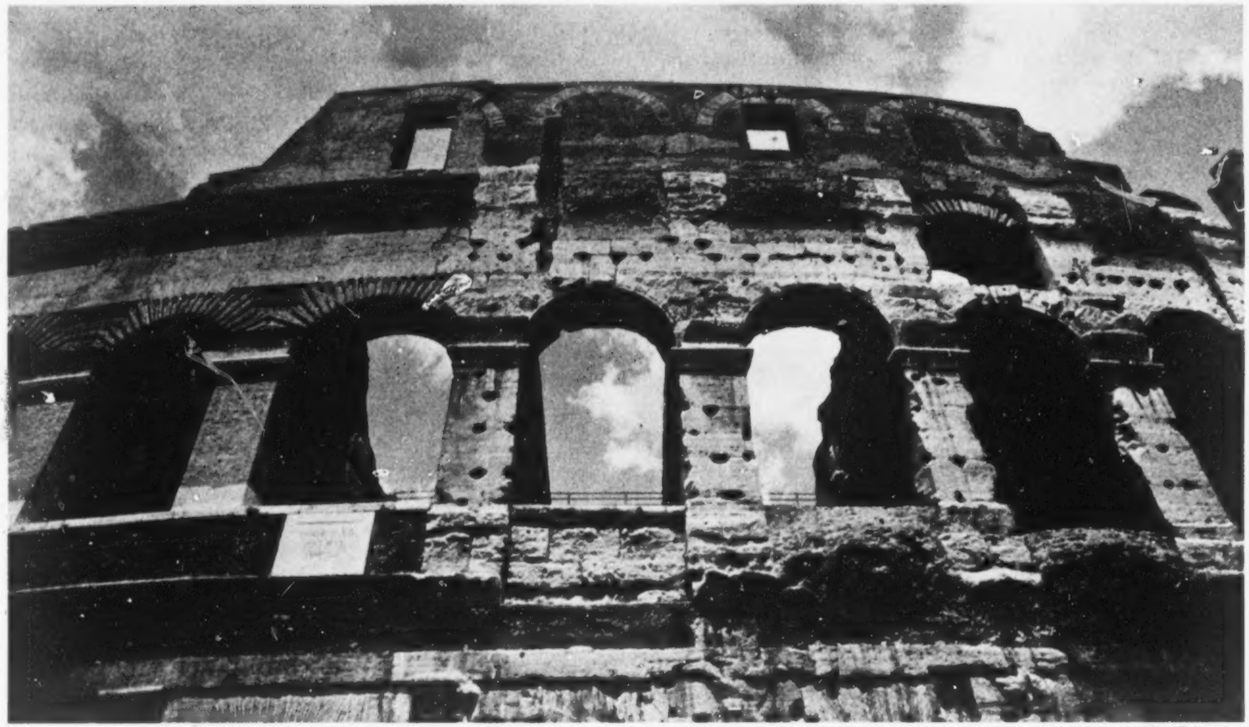
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/7/82	Week Ago
Overnight	14.00%	15.00%
1 month	14.75	15.00
3 month	14.25	14.88
6 month	14.19	14.88
1 year	14.13	14.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.40%	14.60%
Long Term (7 to 15 yrs.)	14.50	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/7/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02309	43.31
Canada	.8200	1.2195
Denmark	.1285	7.7850
France	.1672	5.9800
Germany	.4365	2.2910
Italy	.0007845	1274.70
Japan	.004305	232.28
Mexico	.02145	46.63
Netherlands	.3929	2.5455
Switzerland	.5286	1.8918
U.K.	1.8265	.5475



The Colosseum

Our new branch in Rome reduces your cost of financing imports from Italy.

Manufacturers Hanover's new Rome branch has brought together a team of experts who can arrange subsidized export credit financing in cooperation with Mediocredito Centrale and SACE. This means you can import Italian capital goods under preferential interest rates.

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To discuss our subsidized export credit financing capabilities, or any of your other banking needs, and to receive a copy of our International Export Credit Financing brochure, contact:

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B530-2 5/18/82

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

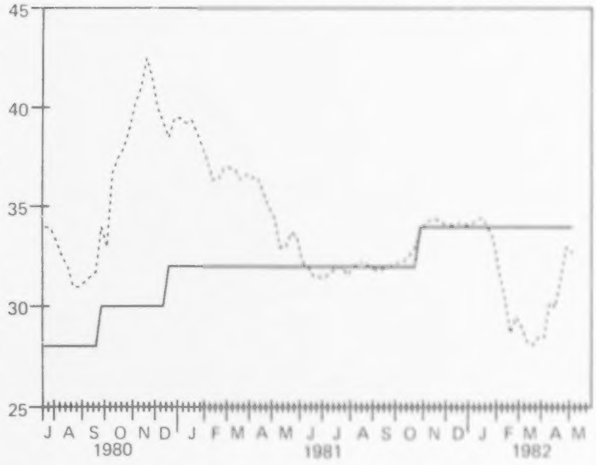
MONDAY, MAY 17, 1982

VOLUME XIX, NUMBER 20

Oil Prices Rebound . . .

After two months of decline, petroleum import prices have begun to rise again as a consequence of oil production restrictions by the Organization of Petroleum Exporting Countries (OPEC), declining crude oil inventories and rising consumption. Average OPEC spot prices (fob), which reached $33.33 per barrel in mid-January, had fallen below $28 in mid-March before reversing direction and rising to about $32 per barrel during the week of May 7. As the chart shows, prices for Saudi Arabian light crude oil (the "marker" oil for OPEC pricing) have tended to reflect price movements in the spot market—albeit with a lag.

During the last week in April, U.S. crude oil inventories stood at an estimated 366 million barrels, ten per cent below the level of a year ago and 6.4 per cent below the mid-March figure. In the past two years crude oil inventories have been at or near their highest annual levels in April and May as stocks were built up in anticipation of the summer driving season. Further, there is evidence that demand for oil products (particularly gasoline) is increasing. In the four weeks ending April 30, total petroleum product demand was two per cent higher than in the same period last year, reversing a sharp fall which began in February. Consumption of gasoline was four per cent above the previous year's rate and eight per cent above the first quarter average, after a decline which began in June of last year. This rise in consumption may be interpreted as the U.S. consumer's reaction to the previous dip in gasoline prices, along with its greater availability. The lower cost of driving versus flying for business or pleasure may have helped, too. Whether or not higher oil consumption is a transitory, seasonal phenomenon or a harbinger of a sustained reversal in the recent oil consumption pattern is of vital concern to not only the U.S. but to all oil-importing nations.


CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE)
VS. SPOT PRICE (DOT)

In April, the level of imports of crude oil fell sharply. Averaging 3.1 million barrels per day (bpd), crude imports were close to 41 per cent below the average for the comparable period last year, reflecting the cutback in oil usage, along with a drawdown of crude oil stocks. Although domestic U.S. crude oil production has held steady at about 8.6 million bpd from the beginning of 1980 to the present, OPEC crude oil production has plummeted in the same period from about 29.8 million bpd to an estimated 16 million bpd—a drop of 46 per cent.

The combination of restricted OPEC production, falling inventory levels and rising consumption along with prospects for modest improvement in economic activity in the U.S. during the rest of 1982 (hence, some increase in energy demand) suggests that oil prices will continue to firm. OPEC policies aimed at maintaining the global price of oil will be effective—but only as long as such other major non-OPEC producers as Mexico decide to cooperate by restricting their production, too. On the other hand, many of the "high absorber" OPEC countries—that is, countries whose large populations and expensive development needs have consumed their oil export revenues—are slipping back into debt as their export income declines in spite of rising prices sustained by restricted production. It is possible that these members of OPEC may be forced by domestic pressures to increase production with the aim of boosting their own revenues. Obviously,

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such a decision would limit the upward movement in oil prices.

The decision by OPEC to attempt to sustain the world price of oil through sharp restrictions on production suggests other possible consequences beyond a possible rise in gasoline and other petroleum product prices. For example, the excellent progress in slowing inflation in the United States and elsewhere over the past year, which owes much to falling energy costs, may come to an end—especially if consumption continues to rise along with prices. A return to rising oil prices would exacerbate the problems of the less developed countries by increasing their import costs, their current account deficits and their already heavy debt burden.

. . . But A Smaller OPEC Role . . .

But in spite of the recent firming in oil prices, international financial markets are experiencing a fundamental change. What appears to be happening is that a massive shift is taking place in the pattern of international financial flows. Since the first large oil price rise of late 1973 OPEC countries as a group have been major suppliers of funds to world financial markets. Although the annual investable surplus of OPEC has varied widely from year to year, it has represented a large, single, concentrated financial resource. In 1980 the OPEC surplus exceeded $100

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	5/5/82	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	142.293	+ 4.865	+12.900
Loans to Depository Inst.	1.500	– .322	– .970
Float	2.131	+ .106	– .410
Total Reserve Bank Credit	156.451	+ 5.614	+11.410
Treasury Deposits with Federal Reserve Banks	9.773	+ 4.985	+ 5.598
Currency Outside Banks	127.543	– .106	+ 6.521
Member Bank Reserves:			
Required	40.111	–0–	– 1.065
Excess (Deficiency)	.456	+ .147	+ .098
Total Reserves Held	40.567	+ .147	– .967
Net Borrowed Reserves	.839	– .497	– 1.075
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.410	+ .635	– 9.015

			% Change Since	
Monetary Aggregates †			Three Months Ago*	Year Ago
M1		449.9	+ 2.1‡	+ 4.3‡
M2	(April '82)	1,880.0	+ 8.5	+ 9.1
M3	(April '82)	2,256.8	+ 9.6	+ 10.3
L	(December '81)	2,643.3	+ 10.3	+ 11.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 5/14/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.30%	12.30%	12.05%
* Federal Agencies	13.30	13.20	13.70
* Project Notes—Taxfree (46% Taxable Equivalent)	13.61	13.98	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.90	13.90	13.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.88%	Jun.	13.85%
15- 29 days	13.75	Jul.	13.50
30- 59 days	13.63	Aug.	13.30
60- 89 days	13.50	Sep.	13.20
90-179 days	12.75	Oct.	13.10
180-239 days	12.75	Nov.	12.90
240-270 days	12.75		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	14.35%		
90-120 days	13.85	Effective Rate	14.50%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,995	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,484	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.9	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Mar '82	– 3.6%	2.4%	7.2%
Change in Producer Prices*	Apr '82n	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands of Persons) †	Apr '82	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force †	Apr '82	9.4%	9.0%	7.3%
Personal Income*	Mar '82	$ 2,525	$ 2,514	$ 2,340
Leading Indicators Composite Index (1967=100) †	Mar '82	124.4	125.0	135.8
Industrial Production Index (1967=100) †	Apr '82n	140.7	141.5	151.9
Net Change in Consumer Installment Credit †	Mar '82n	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Mar '82	–$ 2.64	–$ 1.20	–$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Mar '82	947	924	1,318
New Construction Expenditures*	Mar '82	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Mar '82n	$ 505.9	$ 508.3	$ 487.7
Total Business Sales †	Mar '82n	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

billion and in 1981 it was over $60 billion. This year the outlook is for a much reduced surplus—or even a deficit. This is based upon the combination of lower prices and reduced consumption compared with earlier years.

Recent forecasts for OPEC's financial position have ranged widely—from a surplus of $35 billion to deficits of up to $25 billion. Indeed, in the third quarter of last year OPEC as a whole was a net borrower in international financial markets, and it is probable that it has continued to be a net borrower since then. But with 1982 barely one-third over, it is possible that OPEC may generate a surplus if prices and consumption of oil continue to rise. However, such a surplus would probably be much smaller than in recent years, perhaps close to the modest $5 billion level of 1978.

. . . Will Alter Financial Markets

Certainly a much reduced surplus or a deficit will require some adjustment by the financial markets. Some would argue that a fall in the OPEC surplus will have no effect on the quantity of financial resources available for reinvestment because on a global basis, surpluses and deficits must balance. However, an OPEC surplus which represents funds not needed for current transactions is a concentrated financial resource held by a few investors (the OPEC governments, since oil is a nationally owned

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/28/82)	133,651	+ 1,475	+20,907
New York City (4/28/82)	34,181	+ 554	+ 5,873
Commercial Paper (4/28/82)	171,546	+ 78	+36,628

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/28/82)	204,459	− 267	+29,506
New York City (4/28/82)	57,290	− 177	+ 5,859

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/28/82)	479,462	+ 399	+48,588
New York City (4/28/82)	110,994	+ 16	+ 9,041

Financial Markets

	Friday 5/14/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.65%	+ .07	− 3.90
180-Day Bills†	13.10	+ 1.07	− 2.35
Longest Bills†	13.25	+ .05	− 1.20
Recent Issues:			
$13\frac{7}{8}$s 4/30/84	13.73	+ .17	
14s 3/31/86	13.49	− .03	
$13\frac{3}{4}$s 5/15/92 (When Issued)	13.41	− .06	
14s 11/15/11	13.08	+ .06	
Municipals:			
Bond Buyer—20 Bond Index* (5/13/82)	11.82%	− .22	+ .99
Blue List Total ($ Million)	$1,091	+ $163	+ $331
30-Day Visible Supply ($ Million)	$2,510	+ $232	+ $637
Total	$3,601	+ $395	+ $968
Corporates:			
Moody's Aa Composite (5/13/82)	14.68%	− .18	− .21
30-Day Visible Supply ($ Million) ‡	$1,578	− $ 32	NA
Stocks:			
Dow-Jones Averages:			
Industrials	857.78	− 11.42	− 128.17
Transportation	350.84	− 2.06	− 74.96
Utilities	115.57	− 1.38	+ 6.66
65 Stocks	338.85	− 3.68	− 44.72
Standard and Poor's 500 Stocks	118.01	− 1.46	− 13.95
N.Y.S.E. Composite Index	68.11	− .65	− 8.43
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,722	− 6,116	+ 11,878

* 46% Taxable equivalent 21.89%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 5/14/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.88%	14.00%
1 month	15.00	14.75
3 month	14.69	14.25
6 month	14.50	14.19
1 year	14.38	14.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.50%	14.40%
Long Term (7 to 15 yrs.)	14.60	14.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/14/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02290	43.67
Canada	.8069	1.2393
Denmark	.1278	7.8245
France	.1657	6.0355
Germany	.4329	2.3100
Italy	.0007779	1285.50
Japan	.004229	236.48
Mexico	.02139	46.76
Netherlands	.3891	2.5700
Switzerland	.5143	1.9445
U.K.	1.8200	.5495

commodity in OPEC countries) which can be placed in financial markets with great effect. By the same token, a smaller OPEC surplus means that there are a large number of governments and individuals who can use the funds that were not spent importing oil either for investment or, in the case of less developed nations, directly for consumption. In any event, the financial resources released by the reduced cost of oil imports are widely dispersed.

The fading of the OPEC surplus will thus result in a reduction in liquidity in world financial markets, which have been periodically awash with huge and destabilizing financial flows. The flow of funds through the markets may be expected to be smoother and more predictable, thereby reducing the volatility and instability characteristic of the financial and foreign exchange markets in recent years. Further, a reduced OPEC surplus also implies smaller current account deficits for oil importing countries which will translate into less borrowing—at least for balance of payments purposes. This will come at a time when many banks are reaching prudent lending limits with regard to heavy government borrowers and when the recent wave of debt reschedulings has caused the banks to become more cautious in extending credit.

The longer term significance of the fluctuations in the price/production equation over the past year is that a better balance between oil producers and consumers is resuming. No longer are the oil-importing countries without recourse when faced with sudden changes in price or production. The ability of oil-consuming nations to reduce consumption has been greater than some thought possible a few years ago, while the effect of lower consumption on oil prices has also been unexpectedly large. On the other hand, OPEC appears to be able to restrain production in the interest of sustaining the cartel, while the recent rise in U.S. consumption suggests continuing latent demand which is ready to respond to easing prices. It is apparent that the factors governing the supply of and demand for oil are approaching equilibrium. H

THE CORPORATE TRUSTEE ENDURANCE TEST.

DURABILITY:
When picking a corporate trustee for a bond issue—whether you're a corporation or municipality—pick carefully. Because you're going to have to live with that trustee a long time.

Manufacturers Hanover is one of the nation's largest and most experienced bond trustees. We have the expertise to anticipate problems before you even close the issue. By identifying trouble spots early, everything will run more smoothly. Year after year.

SUREFOOTEDNESS:
As corporate trustee, Manufacturers Hanover moves quickly in handling the day-to-day administrative tasks of overseeing a bond issue.

We consistently meet the NYSE and SEC requirements for the prompt transfer of certificates from seller to buyer. With TRANSIFAC,℠ our electronic nerve center, each entry of data is "key verified"—entered twice by two different operators and then compared automatically by computer. It's the most accurate bondholder record-keeping system available.

ADAPTABILITY:
If a new or unusual change suddenly affects your company, Manufacturers Hanover reacts quickly in interpreting and analyzing indenture provisions. We know the alternate ways of handling many situations to help ensure the continued workability of the issue.

SENSE OF DIRECTION:
Our operations center is located in the heart of Wall Street, where most security trades take place—a location that facilitates the issuance and transfer of certificates for both you and your bondholders.

DETERMINATION:
No corporate trustee is more committed to service than Manufacturers Hanover. In addition to your own individual account officer, a backup officer—familiar with the requirements of your account—is ready to help you. Anytime.

If you want a corporate trustee who can meet every test, talk to Manufacturers Hanover. For more information on our whole range of indenture trusteeship services, call Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, New York, N.Y. 10015

IF YOUR TRUSTEE CAN'T PASS IT,
TALK TO MANUFACTURERS HANOVER.

B5350-2 5/25/82

The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 24, 1982

VOLUME XIX, NUMBER 21

Unemployment And Inflation . . .

The jump in the U.S. jobless rate from nine per cent in March to 9.4 per cent in April, the highest level since 1941, has projected unemployment to the forefront of public attention. It is now the most visible sign of our current economic difficulties and because of its social and political implications, it is receiving wide comment in the press and from our political leaders.

While in no way minimizing the plight of the unemployed, it should be noted that unemployment even at current levels directly affects only a small percentage of the total U.S. population. Indeed, over 57 per cent of all of our working age population is currently employed—well above the postwar average. Further, there are factors which are helping to ameliorate the present situation. In the first place, unlike in 1941 a wider range of benefits is available to the unemployed. In many families there is additional wage income. In fact, about three out of every five U.S. families have more than one wage earner. Finally, some unemployed have been able to supplement their benefits with part-time work.

Inflation, on the other hand, affects everyone—employed and unemployed alike. It erodes purchasing power, encourages consumption and discourages savings and productive investment.

But while the United States is at best in the early stage of recovery and unemployment may climb higher yet, the one bright spot in the economic picture is the dramatic slowing of inflation. In April of last year, consumer prices were ten per cent above the same month in the previous year. This April, with prices rising only 0.2 per cent from March, when they had declined for the first time in 17 years, consumer prices were only 6.6 per cent higher than in the year before.

. . . Equal Discomfort

One way of looking at how the current economic malaise is affecting people is to add the percentage rate of inflation to unemployment to derive a "discomfort" index. This is a rough measure of the way people feel about their own economic well-being and that of their fellow countrymen. Unfortunately, there is nothing in economic theory or in past experience to suggest that the discomfort index at the peak and trough of a business cycle will be equal (which would indicate a precise relationship between inflation and unemployment) so that it cannot be used as a tool for forecasting when a recession will end or what the inflation and unemployment rates will be at any point. However, since the higher the discomfort index is the more stress people are experiencing, a change in the index is a measure of relative economic improvement or deterioration.

A look at the change in the discomfort index for the United States and several other developed countries over the past year gives some insight into how the recent global recession has affected them. Between April of last year and April of this year, the U.S. discomfort index fell from 17.3 to 16.0. Although unemployment rose from 7.3 per cent of the civilian labor force to 9.4 per cent, the slowing of inflation more than compensated for it. The decline in the discomfort index should lead most people to perceive themselves as at least marginally better off than they were one year ago in spite of higher unemployment. This is significant because it eventually will contribute to an improvement in the confidence level of consumers, businessmen and investors about the future. An optimistic view of the future economic environment will help set the stage for recovery.

Abroad The Indexes Are Mixed

Elsewhere in the world the picture is mixed. In the United Kingdom, consumer price inflation fell from 12.6 per cent to 10.4 per cent between March, 1981 and March, 1982 under a policy of tight monetary and credit controls. In the same period, however, unemployment rose from 9.9 per cent to 11.8 per cent. The decline in the discomfort index from 22.5 to 22.2, though small, is encouraging, particularly when it is remembered that consumer price inflation in the U.K. peaked at 21.9 per cent in May, 1980 and has been slowing ever since. Unemployment in May, 1980 was 6.2 per cent, yielding a discomfort index of 28.1 for that month. When viewed from that perspective, the improvement is impressive. Other economic indicators for the United Kingdom

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suggest a further downward trend in inflation and better growth prospects for 1982 than in recent years. However, the Falkland Islands conflict, particularly if it expands or is extended, may damage British economic prospects.

West Germany's discomfort index increased from 9.8 in March of last year to 11.4 this year. Inflation fell slightly in the last year from 5.5 per cent to 5.2 per cent, while unemployment rose from 4.3 per cent to 6.2 per cent. Even though both inflation and unemployment levels are low compared with U.S. and U.K. levels, they are high in the historical and social context of the German economy and reveal its extraordinary sensitivity to external events. German exports are equivalent to about 32 per cent of GNP (compared with about 13 per cent for the U.S.).

Besides being very sensitive to the global recession, German unemployment also reflects low domestic demand. Further, the remarkable success of the German "economic miracle" since the early 1950s has made the recent recession particularly difficult to bear. The specter of the mass unemployment and hyperinflation of the 1920s still haunts the German economy. The perception of a worsened economic environment has discouraged growth prospects. At best, real GNP is expected to rise by one per cent in 1982.

France, too, has seen a rise in its discomfort level from 19.8 in March, 1981 to 22.8 one year later. In

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/12/82	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	137.671	– 4.622	+10.760
Loans to Depository Inst.	1.120	– .380	– .613
Float	2.164	+ .034	– 2.164
Total Reserve Bank Credit	150.736	– 5.714	+ 7.145
Treasury Deposits with			
Federal Reserve Banks	4.694	– 5.079	+ 1.395
Currency Outside Banks	128.838	+ 1.295	+ 7.232
Member Bank Reserves:			
Required	38.907	– 1.204	– 1.111
Excess (Deficiency)	.296	– .159	+ .169
Total Reserves Held	39.203	– 1.363	– .942
Net Borrowed Reserves	.606	– .234	– .774
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	90.529	– .881	–10.259
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1	452.5	+ 3.2‡	+ 4.4‡
M2 (April '82)	1,879.0	+ 8.3	+ 9.0
M3 (April '82)	2,256.8	+ 9.6	+ 10.3
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four week moving average.

New York Money Market

Offering Rates 5/21/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.20%	11.35%	11.35%
* Federal Agencies	13.25	13.25	13.75
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	13.52	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.15	13.15	13.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	12.00%	Jun.	13.30%
15- 29 days	12.00	Jul.	13.10
30- 59 days	12.75	Aug.	12.85
60- 89 days	12.75	Sep.	12.80
90-179 days	12.00	Oct.	12.65
180-239 days	12.00	Nov.	12.45
240-270 days	12.00		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	13.25%		
90-120 days	13.13	Effective Rate	13.55%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 4.3	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82n	2.4%	– 3.6%	4.8%
Change in Producer Prices*	Apr '82	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands [illegible] Persons) †	Apr '82	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force †	Apr '82	9.4%	9.0%	7.3%
Personal Income*	Apr '82n	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100) †	Mar '82	124.4	125.0	135.8
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit †	Mar '82	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Mar '82	–$ 2.64	–$ 1.20	–$ 0.71
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Apr '82n	881	941	1,301
New Construction Expenditures*	Mar '82	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Mar '82	$ 505.9	$ 508.3	$ 487.7
Total Business Sales †	Mar '82	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

spite of a widely publicized change in the direction of French economic policy toward reflation and expansion, unemployment rose from an estimated 7.3 per cent to about 8.7 per cent in the index period. At the same time, inflation edged up from 12.5 per cent to 14.1 per cent largely as a result of labor cost increases in excess of productivity improvements. The rise in both inflation and unemployment rates illustrates the difficulties confronting the Mitterrand government as it tries to reorient the French economy.

Japan's discomfort index has shown remarkable improvement, declining from 8.7 for February, 1981 to 5.4 for the same month this year. Over that period, unemployment, though high by Japanese standards at 2.3 per cent of the labor force, held steady. This is attributable to the custom of lifetime employment in Japan which makes unemployment statistics a less useful indicator of economic health than in many other countries. In the last year, however, the Japanese government has more than halved the inflation rate from 6.4 per cent to 3.1 per cent (February to February). Much of this improvement is due to suppressed domestic demand as well as the fall in import prices resulting from global recession. It also reflects the effectiveness of Japanese economic management. There are already early signs of an improvement in Japanese economic growth prospects for this year.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/5/82)	132,496	– 1,155	+17,820
New York City (5/5/82)	33,494	– 687	+ 4,828
Commercial Paper (5/5/82)	174,453	+ 2,907	+37,267

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/5/82)	207,642	+ 2,911	+30,247
New York City (5/5/82)	58,756	+ 1,466	+ 6,636

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/5/82)	483,216	+ 3,699	+47,834
New York City (5/5/82)	113,076	+ 2,082	+ 9,445

Financial Markets

	Friday 5/21/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.80%	– .85	– 4.84
180-Day Bills†	12.48	– .62	– 3.02
Longest Bills†	12.91	– .34	– 1.45
Recent Issues:			
13¾s 5/31/84 (When Issued)	13.42	NA	
14s 3/31/86	13.62	+ .13	
13¾s 5/15/92	13.40	– .01	
14s 11/15/11	13.06	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (5/20/82)	11.96%	+ .14	+ 1.23
Blue List Total ($ Million)	$1,810	+ $719	+ $972
30-Day Visible Supply ($ Million)	$1,660	– $850	– $ 23
Total	$3,470	– $131	+ $949
Corporates:			
Moody's Aa Composite (5/20/82)	14.79%	+ .11	– .12
30-Day Visible Supply ($ Million) ‡	$2,198	– $620	NA
Stocks:			
Dow-Jones Averages:			
Industrials	835.90	– 21.88	– 135.82
Transportation	333.56	– 17.28	– 92.97
Utilities	113.78	– 1.79	+ 6.87
65 Stocks	328.36	– 10.49	– 51.51
Standard and Poor's 500 Stocks	114.89	– 3.12	– 16.44
N.Y.S.E. Composite Index	66.26	– 1.85	– 10.00
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,468	– 6,254	+ 4,482

* 46% Taxable equivalent 22.15%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 5/21/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.63%	14.88%
1 month	14.50	15.00
3 month	14.31	14.69
6 month	14.31	14.50
1 year	14.31	14.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.50%	14.50%
Long Term (7 to 15 yrs.)	14.60	14.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/21/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02301	43.45
Canada	.8132	1.2297
Denmark	.1279	7.8175
France	.1668	5.9950
Germany	.4346	2.3008
Italy	.0007829	1277.30
Japan	.004222	236.88
Mexico	.02132	46.91
Netherlands	.3911	2.5570
Switzerland	.5106	1.9585
U.K.	1.7965	.5566

GOLF FANS' DREAM WEEK

WHAT:

The Manufacturers Hanover Westchester Classic

WHERE:

Westchester Country Club, Harrison, New York

From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:

Monday, June 21, thru Sunday, June 27

Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:

Many of the top pros on the PGA TOUR— including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:

Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:

The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

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B5350-2 5/1/82

The Manufacturers Hanover Financial Digest

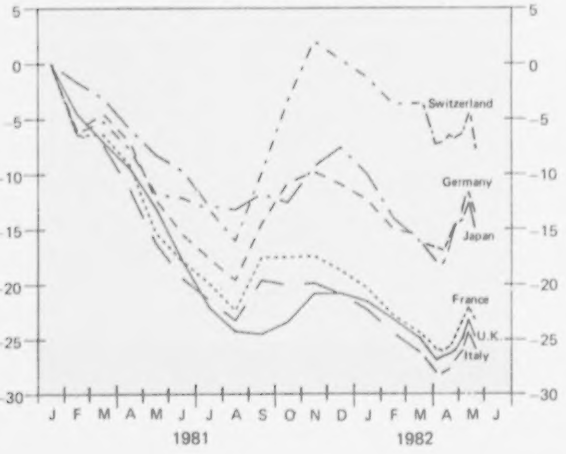
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, MAY 28, 1982 VOLUME XIX, NUMBER 22

On The Summit Conference Agenda . . .

The forthcoming economic summit conference at Versailles, France, in early June will be an opportunity for the participants to come to grips with a number of urgent economic issues. Among the items of particular interest to the industrial countries on a crowded agenda are the global economic slump and impediments to international investment and trade. On these matters there is a wide diversity of viewpoints and emphasis. The European participants at the conference have indicated that they want to talk about the deleterious global effects of high interest rates, particularly in the United States, as well as the U.S. policy of non-intervention in stabilizing volatile foreign exchange rates.

VALUE IN U.S. DOLLARS OF CURRENCIES:
% CHANGE FROM JAN. 1981



The United States government, under pressure from particular interest groups, is concerned about various aspects of international trade. These include subsidization of exports, non-tariff trade barriers, bilateral trade imbalances and the financing of export trade. The Japanese government, which is particularly sensitive about its trade surpluses with the U.S. and Europe, has publicly expressed concern that Japan may be criticized by both the U.S. and the Europeans on trade issues. Thus, the participants come to the conference table with a complex and wide-ranging series of problems.

. . . Are Interest Rates . . .

One problem which cuts across most of the others is high U.S. interest rates. These are widely viewed abroad as being the principal cause of high interest rates in all financial markets. Because the U.S. economy and consequently the U.S. dollar both loom so large in the global economic scene, interest rates in the United States do exert a profound influence on international financial markets.

But, the prospects for a sustained and substantial fall in U.S. interest rates are not very great. For one thing, there is still the question of the budget deficit which has yet to be resolved. And even in the unlikely event that the President and the Congress arrive at a compromise budget, there is still no guarantee that the proposed reductions in the deficit would be enough to convince the financial markets that the budget process has come under control, thus enabling interest rates to descend. The facile alternative of lowering interest rates by increasing the money supply is unlikely, since both the present Administration and the Federal Reserve have stoutly opposed such a policy. It would appear, therefore, that high U.S. interest rates are a factor with which the international financial markets will have to deal for some time to come.

Nonetheless, it would be incorrect to view lofty U.S. interest rates as the only cause of high interest rates elsewhere. Most of the major industrial nations have generated large budget deficits in recent years, resulting in hefty levels of government borrowing on domestic and international markets in competition, not only with each other, but with the private sector as well. The growing financial needs of the less developed countries have added to the pressure on the existing global stock of credit, too.

. . . Exchange Rates . . .

Volatile and unstable foreign exchange rates are also a source of friction. In the eyes of many people abroad, their currency's exchange rates are not only a matter of national prestige, but also an indicator of economic health. The present system of floating exchange rates has placed heavy burdens on national economic policies in an era of growing international

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economic interdependence, when government control over economic policies seems to be eroding. Thus, the recently enunciated Reagan Administration policy of non-intervention in the foreign exchange markets is seen by some as a step back from international economic cooperation.

Under the Bretton Woods system of fixed exchange rates, central banks cooperated in stabilizing exchange rates through well-timed and usually coordinated purchases or sales of currencies to sustain the currency parities. Even under the floating rate system, intervention by a single central bank or a group of central banks (as in the case of the European Monetary System) is common in order to either defend a particular rate or at least to calm disorderly markets. Thus, a publicly stated policy of non-intervention by such a large market participant as the U.S. may be viewed by some as a contributor to instability. This is particularly true at a time when the dollar is showing strength against the other major currencies. As the chart indicates the dollar has strengthened over much of the past year—in some cases to the point where it is now overvalued. As a result, some foreign central banks are experiencing difficulty in preventing massive capital outflows and a further deterioration in exchange rates.

. . . And Trade

The sorry state of world trade must certainly concern all of the summit participants. Last year the value of world trade was actually one per cent below the 1980 level—the first such decline since 1958. In an environment of low economic

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/19/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	138.824	+ 1.153	+ 8.517
Loans to Depository Inst.	.963	– .157	– .991
Float	1.723	– .425	– 1.337
Total Reserve Bank Credit	150.737	+ .017	+ 5.564
Treasury Deposits with			
Federal Reserve Banks	3.122	– 1.572	.003
Currency Outside Banks	130.019	+ 1.181	965
Member Bank Reserves:			
Required	39.289	+ .382	– 1.075
Excess (Deficiency)	.389	+ .109	+ .236
Total Reserves Held	39.678	+ .491	– .839
Net Borrowed Reserves	.342	– .280	– 1.188
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	91.892	+ 1.363	– 8.170

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	451.5	+ 2.8‡	+ 4.6‡
M2 (April '82)	1,879.5	+ 8.4	+ 9.1
M3 (April '82)	2,256.3	+ 9.5	+ 10.3
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 5/28/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.50%	11.65%	11.65%
* Federal Agencies	12.80	12.65	13.10
* Project Notes—Taxfree (46% Taxable Equivalent)	13.61	13.80	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.40	13.65	13.70

‡Finance Company Paper—Prime	
5- 14 days	12.88%
15- 29 days	12.88
30- 59 days	12.88
60- 89 days	12.50
90-179 days	12.00
180-239 days	11.88
240-270 days	11.88

‡* Bankers' Acceptances	
Jun.	13.15%
Jul.	13.00
Aug.	12.90
Sep.	12.85
Oct.	12.85
Nov.	12.65

‡Industrial Paper—Prime	
30- 89 days	13.13%
90-120 days	13.00

†Federal Funds Effective Rate 13.35%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 4.3	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	– 3.6%	4.8%
Change in Producer Prices*	Apr '82	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands of Persons)†	Apr '82	99,340	99,492	100,878
Unemployment as % of Civilian Labor Force†	Apr '82	9.4%	9.0%	7.3%
Personal Income*	Apr '82	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100)†	Apr '82n	125.2	124.2	137.3
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit†	Mar '82	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Apr '82n	–$ 0.32	–$ 2.64	–$ 3.48
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Apr '82	881	941	1,301
New Construction Expenditures*	Mar '82	$ 231.2	$ 233.0	$ 250.3
Total Business Inventories†	Mar '82	$ 505.9	$ 508.3	$ 487.7
Total Business Sales†	Mar '82	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

growth or recession, the weakness of international trade further encourages pressures on governments to restrict imports through a variety of protectionist measures and to encourage exports, often through subsidization of threatened industries or with export credit.

Although most governments have successfully resisted such pressures, trade frictions are increasing —particularly accusations of unfair subsidization and dumping. Proposals for protectionist legislation are also increasingly common. The number of trade disputes brought before the GATT (General Agreement on Tariffs and Trade) arbitration panel in 1981 reached a record level.

The United States is particularly sensitive to its trade position. Exports have been declining slowly but steadily since the first quarter of 1981 while imports have remained strong because of the strength of the dollar on the foreign exchange markets. The fall in exports has added to the depth of the U.S. recession. Between the first and last quarters of 1981 real net exports of goods and services fell from about $51 billion to just over $39 billion (seasonally adjusted, at annual rates)—equal to two-thirds of the $18 billion drop in real GNP for the same period.

Besides the overvalued dollar, U.S. exports have suffered from the global recessionary environment and the high cost of credit. A substantial portion of U.S. exports is in the form of high-value capital goods which are particularly sensitive to those

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/12/82)	133,617	+ 1,121	+17,030
New York City (5/12/82)	34,466	+ 972	+ 5,558
Commercial Paper (5/12/82)	175,716	+ 1,263	+36,115

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/12/82)	207,398	– 444	+31,358
New York City (5/12/82)	58,590	– 367	+ 7,205

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/12/82)	481,723	– 1,746	+47,954
New York City (5/12/82)	112,654	– 623	+ 9,838

Financial Markets

	Friday 5/28/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.05%	+ .25	– 2.94
180-Day Bills†	12.55	+ .07	– 1.45
Longest Bills†	12.95	+ .04	– .20
Recent Issues:			
13$\frac{3}{4}$s 5/31/84 (When Issued)	13.55	+ .13	
14s 3/31/86	13.70	+ .08	
13$\frac{3}{4}$s 5/15/92	13.65	+ .25	
14s 11/15/11	13.34	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (5/27/82)	11.99%	+ .03	+ 1.35
Blue List Total ($ Million)	$1,184	– $626	+ $340
30-Day Visible Supply ($ Million)	$1,744	+ $ 84	– $ 72
Total	$2,928	– $542	+ $268
Corporates:			
Moody's Aa Composite (5/27/82)	14.76%	– .03	– .20
30-Day Visible Supply ($ Million) ‡	$1,840	– $358	NA
Stocks:			
Dow-Jones Averages:			
Industrials	819.54	– 16.36	– 172.21
Transportation	320.14	– 13.42	– 115.65
Utilities	111.09	– 2.69	+ 3.42
65 Stocks	319.70	– 8.66	– 67.44
Standard and Poor's 500 Stocks	111.88	– 3.01	– 21.01
N.Y.S.E. Composite Index	64.54	– 1.72	– 12.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,542	– 2,926	– 8,671

* 46% Taxable equivalent 22.20%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

	Friday 5/28/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.00%	13.63%
1 month	14.25	14.50
3 month	14.31	14.31
6 month	14.38	14.31
1 year	14.38	14.31
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.45%	14.50%
Long Term (7 to 15 yrs.)	14.60	14.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/28/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02258	44.29
Canada	.8047	1.2427
Denmark	.1259	7.9435
France	.1637	6.1100
Germany	.4264	2.3450
Italy	.0007689	1300.60
Japan	.004112	243.20
Mexico	.02123	47.10
Netherlands	.3855	2.5940
Switzerland	.5011	1.9958
U.K.	1.7915	.5582

factors. Further, imports, in spite of a seasonally adjusted 14.5 per cent fall in April, are expected to stay well in excess of exports. In fact, most of April's sharp decline in imports was due to decreased oil imports, which will increase, now that the oil companies' inventories are drawn down. During a period of recession and high unemployment in the U.S., imports—particularly of such products as steel and automobiles—are a very sensitive issue. The problem for the United States is exacerbated because of the very large trade deficit (about $15 billion in 1981) with Japan.

It is apparent that the discussions at the Versailles Summit Conference will reflect basic differences in national policies and priorities which are not likely to be resolved in that forum. Indeed, the conference is likely to generate more heat than light. The fundamental problem continues to be the inability of nations with widely different social, political and economic characteristics to coordinate their economic policies.

The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club, Harrison, New York
From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:
Monday, June 21, thru Sunday, June 27
Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:
Many of the top pros on the PGA TOUR—
including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:
Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County
Sports House and Grounds: $60 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:
The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

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MANUFACTURERS HANOVER

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B5350-2 6/9/82

The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 7, 1982 VOLUME XIX, NUMBER 23

Boom Times Ahead?

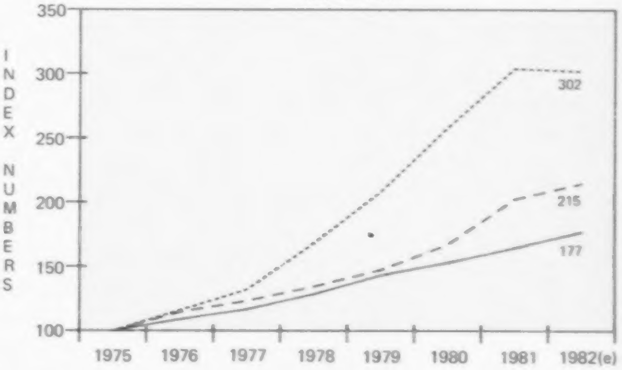
Of all the economic and financial surprises occurring in recent months, one of the more enjoyable is the glimmer of recovery now being spotted on the horizon. For once, this apparent change in economic activity will coincide with widely-voiced predictions that the economy would rebound around midyear. As if on cue, the index of leading economic indicators rose 0.8 per cent in April, the first monthly increase in a year. Although this development is not in itself sufficient to mark an end to the current recession, an upturn in this index has always preceded or coincided with recovery in the postwar years. And since this usually occurs about a month or two prior to the bottom of a business downturn (Financial Digest—May 10, 1982), an end to the current recession may not be too far away.

To be sure, a look at the latest batch of weekly and monthly statistics still points toward substantial economic weakness—although it does appear that in many instances the pace of decline has slowed. In the automobile industry, for example, new domestic car sales ran at a seasonally adjusted 6.3 million unit annual rate in May, lackluster by historical standards but better than the weak April total of under 5.5 million units. And, with sales stimulated by an array of buyer incentive programs, auto production itself has finally begun to stir. During the week ending May 22, production totaled 135,405 units, 16½ per cent below year-earlier levels. This was a sizable improvement over the mid-April output level of 117,635 units, which was almost 30 per cent below the year before.

Hardly Likely

Whether these trends can be sustained or not is not yet clear. Affordability remains a significant deterrent to new auto sales. Prices have escalated (the average price of a new car sold domestically stood a shade below $9,000 in 1981, almost double the 1975 level) and auto loan interest rates remain at lofty heights (more than 17 per cent, on average, during first-quarter 1982). These factors have combined to produce a steep rise in the monthly payment associated with the purchase of a new automobile. Since 1978, for example, when domestic auto sales peaked at 9.2 million units, the monthly payment required to service a three-year auto loan with a 25 per cent down payment has risen by a huge 60 per cent—dwarfing the much more modest 25 per cent rise in median family income during the period. Not surprisingly, new domestic auto sales have been ratcheting lower ever since.

AVERAGE MONTHLY MORTGAGE PAYMENT (DOT) AND AVERAGE MONTHLY AUTO LOAN PAYMENT (DASH) VS. MEDIAN FAMILY INCOME (LINE)
(1975=100)



Sustained or not, one industry which would welcome even a limited uptick is housing. With an even worse combination of high prices and lofty finance charges deterring prospective home buyers, an upturn in the housing industry appears remote. Because mortgage interest rates are still hovering well above 17 per cent and the median sales price of new single-family homes reached more than $72,000 in April, the monthly payment required to service a 25-year conventional mortgage loan with a 25 per cent down payment now exceeds $800—too much for the vast majority of American families to bear (Financial Digest— March 8, 1982). As a result, new single-family homes sold at a seasonally adjusted 315,000 unit annual rate in April, the lowest level on record, while the number

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of housing starts has plummeted well below the one million unit annual rate level.

But The Rate Of Descent . . .

With two of the major engines of real GNP growth firing erratically, numerous other industries continue to grope for a firmer footing. For some, the recession shows few signs of abating—and probably will not until factory orders, which fell again in April, turn around. But for others, the rate of output decline has at least moderated. Among the former is the steel industry. Year-over-year comparisons of total output still suggest only a worsening, not an improving picture. As of the third week in May production was down more than 43 per cent compared with year-earlier levels, even worse than the dismal output totals of mid-April, when production was off about 40 per cent on a year-over-year basis. Less than one-half of the steel industry's capacity is now being utilized, while the rate of unemployment among steel workers has soared above 15 per cent.

In the paperboard industry, however, year-over-year output declines have narrowed. Paperboard production, used for packaging most goods, thus indicative of eventual shipment levels, usually begins to rebound in advance of the rest of the economy.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/26/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.424	– .400	+ 9.592
Loans to Depository Inst.	1.054	+ .091	– 1.856
Float	1.890	+ .113	– .469
Total Reserve Bank Credit	149.846	– .957	+ 5.881
Treasury Deposits with Federal Reserve Banks	3.023	– .099	+ .193
Currency Outside Banks	129.812	– .203	+ 7.238
Member Bank Reserves:			
Required	38.942	– .347	– .889
Excess (Deficiency)	.033	– .427	– .330
Total Reserves Held	38.975	– .774	– 1.219
Net Borrowed Reserves	.763	+ .492	– 1.475
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.885	– 1.007	– 6.631
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	451.5	+ 3.8‡	+ 5.0‡
M2 (April '82)	1,879.7	+ 8.4	+ 9.1
M3 (April '82)	2,256.5	+ 9.5	+ 10.3
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 6/4/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.95%	12.03%	12.00%
* Federal Agencies	12.82	12.92	13.10
* Project Notes—Taxfree (46% Taxable Equivalent)	13.80	13.98	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.80	13.85	14.20

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.25%	Jul.	13.35%
15- 29 days	13.38	Aug.	13.25
30- 59 days	13.25	Sep.	13.25
60- 89 days	13.25	Oct.	13.20
90-179 days	12.88	Nov.	13.10
180-239 days	12.50	Dec.	13.00
240-270 days	12.00		

‡Industrial Paper—Prime			
30- 89 days	13.00%	†Federal Funds	
90-120 days	12.63	Effective Rate	13.50%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 4.3	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	– 3.6%	4.8%
Change in Producer Prices*	Apr '82	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands of Persons)†	May '82n	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force†	May '82n	9.5%	9.4%	7.5%
Personal Income*	Apr '82	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100)†	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit†	Mar '82	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Apr '82	–$ 0.32	–$ 2.64	–$ 3.48
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Apr '82	881	941	1,301
New Construction Expenditures*	Apr '82n	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Mar '82	$ 505.9	$ 508.3	$ 487.7
Total Business Sales†	Mar '82	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

And, here, whereas production in the second full week of April was down almost 17 per cent year-over-year, by the second week in May it stood "only" 11.9 per cent below comparable period year-earlier levels. So too, somewhat more modest year-over-year output declines are now being posted in such industries as paper, lumber, electric utilities and transportation. Although hardly suggesting a surge in growth, the performance of these industries may at least be indicative that the rate of descent has slowed.

. . . May Have Slowed

It is even possible to find a glimmer of hope among the jobless statistics. To be sure, the unemployment rate edged up 0.1 per cent to 9.5 per cent—another postwar record—and 10½ million people are now looking for work but are unable to find it. However, employment rose as well. The Labor Department says that 777,000 more people were at work in May than in April, bringing the seasonally adjusted number of jobholders to 100.1 million—less than one million below the all-time record set exactly one year ago. What is more, two important advance indicators of future employment trends—the average workweek and overtime in the nation's factories—signalled good news. Overtime hours held steady, while the average workweek rose.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/19/82)	133,953	+ 336	+16,395
New York City (5/19/82)	35,162	+ 696	+ 6,655
Commercial Paper (5/19/82)	176,243	+ 127	+35,982

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (5/19/82)	207,495	+ 59	+32,124
New York City (5/19/82)	58,151	– 439	+ 7,195
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/19/82)	480,930	– 793	+48,545
New York City (5/19/82)	111,659	– 995	+ 9,700

Financial Markets

	Friday 6/4/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.50%	+ .45	– 4.07
180-Day Bills†	13.00	+ .45	– 3.00
Longest Bills†	13.30	+ .35	– 1.87
Recent Issues:			
13¾s 5/31/84	13.89	+ .34	
14s 3/31/86	13.90	+ .20	
13¾s 5/15/92	13.86	+ .21	
14s 11/15/11	13.58	+ .24	
Municipals:			
Bond Buyer—20 Bond Index* (6/3/82)	12.13%	+ .14	+ 1.54
Blue List Total ($ Million)	$1,191	+ $ 7	+ $371
30-Day Visible Supply ($ Million)	$2,352	+ $608	+ $185
Total	$3,543	+ $615	+ $556
Corporates:			
Moody's Aa Composite (6/3/82)	15.03%	+ .27	+ .31
30-Day Visible Supply ($ Million) ‡	$1,980	+ $140	NA
Stocks:			
Dow-Jones Averages:			
Industrials	804.98	– 14.56	– 188.81
Transportation	317.07	– 3.07	– 109.21
Utilities	110.52	– .57	+ 4.82
65 Stocks	315.49	– 4.21	– 68.34
Standard and Poor's 500 Stocks	110.09	– 1.79	– 22.01
N.Y.S.E. Composite Index	63.42	– 1.12	– 13.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,995	+ 1,453	– 8,045

* 46% Taxable equivalent 22.46%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 6/4/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.50%	14.00%
1 month	14.44	14.25
3 month	14.56	14.31
6 month	14.69	14.38
1 year	14.69	14.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.57%	14.45%
Long Term (7 to 15 yrs.)	14.70	14.60

FOREIGN EXCHANGE SPOT RATES		
New York Opening (6/4/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02246	44.53
Canada	.8010	1.2484
Denmark	.1236	8.0885
France	.1625	6.1550
Germany	.4247	2.3545
Italy	.0007637	1309.40
Japan	.004107	243.48
Mexico	.02112	47.35
Netherlands	.3831	2.6100
Switzerland	.4949	2.0208
U.K.	1.7962	.5567

GOLF FANS' DREAM WEEK

WHAT:
The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club, Harrison, New York

From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:
Monday, June 21, thru Sunday, June 27

Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:
Many of the top pros on the PGA TOUR—

including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:
Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:
The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

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MANUFACTURERS HANOVER

MANUFACTURERS HANOVER WESTCHESTER CLASSIC

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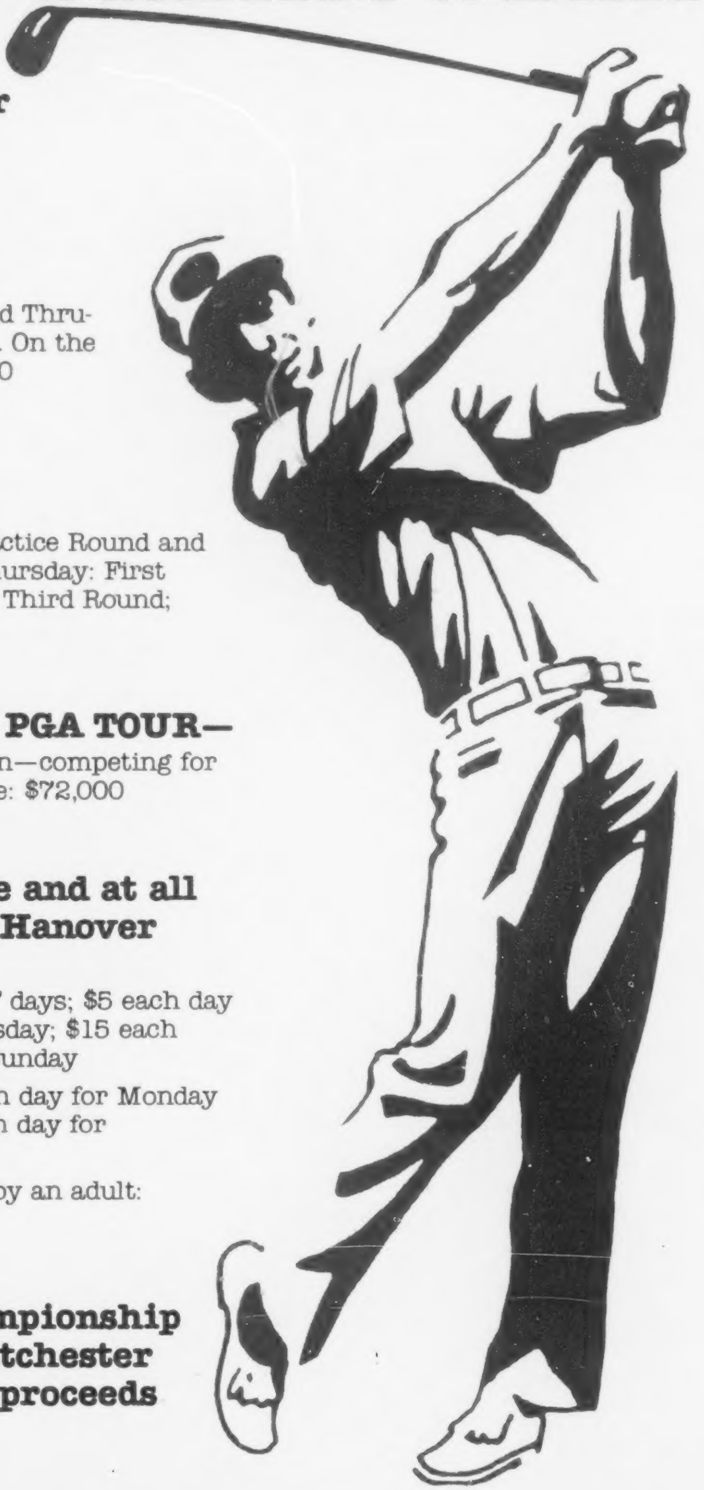

6/14/82
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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 14, 1982
VOLUME XIX, NUMBER 24

Healthier Balance Sheets . . .

Located amid the rubble of such dour economic news as postwar high unemployment rates, record low sales of single-family homes and another slump in new factory orders are not only further glimmers of recovery (Financial Digest–June 7, 1982), but clearer signs as to the direction the recovery will take. For despite the persistence of widespread pessimism over the economic outlook, households have apparently decided to boost spending—fueled in part by the strong improvements in household finances which have already occurred, as well as those anticipated to occur shortly. This suggests that a consumer-led rebound may be near. And while autos and housing are not expected to contribute much to this rebound, even increased spending for such consumer items as softgoods, electronics and small-ticket durables may be sufficient to provide at least a modicum of thrust to the economy.

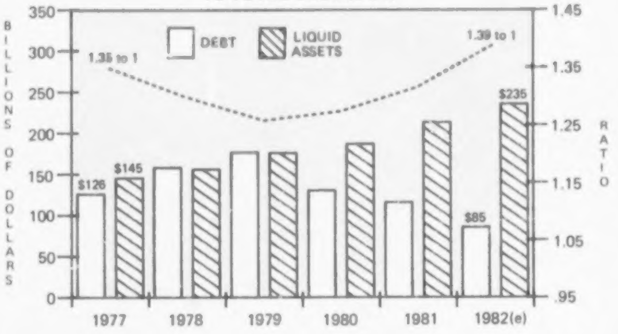
According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, rose 1.5 per cent in May month-over-month, following a 0.7 per cent gain in April. While the continuing upturn in retail sales was, by itself, welcome, when you consider the exceptionally low rate of inflation prevailing during the period, this gain becomes even more impressive. For if the preliminary numbers hold up, the back-to-back increase in "real" retail sales in April and May could well be the largest gain for any two-month period since 1976.

Meanwhile, a report by the Federal Reserve confirmed the more aggressive buying posture adopted by consumers since the onset of spring. Consumer installment credit outstanding rose by a strong $1.2 billion in April, the largest monthly increase in seven months. While outstanding auto credit posted a good-sized $233 million increase—its first this year—all types of installment debt, including credit card (which rose the most) and mobile home, advanced in April.

. . . And A Midsummer Boost To Cash Flow . . .

In recent months, consumer financial positions have improved as a result of the cautious acquisition of new debt and a sharp increase in holdings of liquid financial assets. During the six months ending April 30, for example, consumer installment debt outstanding increased, on average, by less than $550 million per month. This was 70 per cent below the average monthly gain posted during the same period one year earlier—and only one-quarter the size of the monthly rise in installment debt outstanding during the immediately preceding six-month period.

CHANGE IN TOTAL HOUSEHOLD DEBT AND LIQUID ASSETS (BARS) VS. RATIO OF TOTAL LIQUID ASSETS TO TOTAL DEBT (DOT)



What is more, because of the paltry pace of debt acquisition and still hefty disposable income gains, both the relative size as well as the burden of this debt has diminished. Specifically, the ratio of total installment debt outstanding to disposable income, at 15½ per cent, dropped during the first quarter of 1982 to its lowest level in five years. Even more noteworthy was the decline in the proportion of incomes that is used to repay previously-incurred installment debt. During the first quarter of 1982, the ratio of installment debt liquidations to disposable income fell to its lowest level since 1965, suggesting that people could step up their use of credit even more, if they wanted to.

If they are contemplating the purchase of a home, people could apply their enhanced borrowing power towards the sizable mortgage sure to be needed. So far, however, the acquisition of new mortgage debt, the other principal component of

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350 Park Avenue, New York, NY 10022

household debt, is still sluggish. Deterred by high sales prices and lofty mortgage interest rates, consumers have backed away from the housing market, sending home sales and mortgage originations plummeting. In 1981, mortgage debt outstanding on one- to four-family homes increased by slightly more than six per cent year-over-year, less than one-half the average annual rate of rise during the 1970s. This, in turn, caused 1981's increase in total household liabilities to be one of the slowest annual rises on record.

. . . Should Buoy Consumer Spending

The strengthening of the liability side of household finances occurred at the same time that household holdings of liquid assets (cash, NOW and savings accounts, money market fund shares and Treasury securities) surged. The value of these holdings soared to an all-time high last year, whether measured in current or constant dollars, while the ratio of liquid assets to household liabilities—a ready net worth indicator—posted one of its largest annual gains ever (see chart on page 1).

But that is not the only positive news for the consumer. On July 1, household spending capacity will be boosted by a 7.4 per cent cost of living adjustment to Social Security payments and a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/2/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.946	+ .522	+10.779
Loans to Depository Inst.	1.052	− .002	− .900
Float	2.527	+ .532	− 1.529
Total Reserve Bank Credit	151.319	+ 1.368	+ 7.653
Treasury Deposits with Federal Reserve Banks	2.838	− .185	− .144
Currency Outside Banks	130.289	+ .477	+ 7.738
Member Bank Reserves:			
Required	38.932	− .010	− .944
Excess (Deficiency)	.774	+ .636	+ .485
Total Reserves Held	39.706	+ .626	− .459
Net Borrowed Reserves	.018	− .640	− 1.358
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.035	+ .150	− 5.501

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		452.8	+ 4.5‡	+ 5.3‡
M2	(May '82)	1,894.7	+ 10.2	+ 9.4
M3	(May '82)	2,275.4	+ 11.0	+ 10.2
L	(January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/11/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.85%	12.05%	12.05%
* Federal Agencies	12.65	12.75	13.17
* Project Notes—Taxfree (46% Taxable Equivalent)	13.89	14.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.80	14.05	14.30

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.63%	Jul.	13.50%
15- 29 days	13.50	Aug.	13.40
30- 59 days	13.50	Sep.	13.35
60- 89 days	13.38	Oct.	13.30
90-179 days	13.25	Nov.	13.25
180-239 days	12.75	Dec.	13.10
240-270 days	12.00		

‡Industrial Paper—Prime			
30- 89 days	13.50%	†Federal Funds Effective Rate	14.05%
90-120 days	13.45		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 4.3	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	− 3.6%	4.8%
Change in Producer Prices*	May '82n	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	May '82	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force †	May '82	9.5%	9.4%	7.5%
Personal Income*	Apr '82	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100) †	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit †	Apr '82n	$ 1.18	$ 0.99	$ 2.72
U.S. Merchandise Trade Balance †	Apr '82	−$ 0.32	−$ 2.64	−$ 3.48
Plant and Equipment Expenditures*	3rd Q'82n	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Apr '82	881	941	1,301
New Construction Expenditures*	Apr '82	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Apr '82n	$ 508.5	$ 507.6	$ 487.1
Total Business Sales†	Apr '82n	$ 339.9	$ 343.1	$ 350.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

ten per cent, across-the-board cut in personal income tax rates. The increase in Social Security payments alone is expected to pump some $11 billion into the economy over the next year while the personal income tax cut should kick in about $35 billion more. Together, the potential consumer spending stream will widen by at least $46 billion. These are almost completely after-tax dollars—and are equivalent to 28 per cent of the overall gain in disposable incomes during the 12 months ending April 30.

Will Inventories Be Far Behind?

An upturn in consumer spending may not be the only factor contributing to at least a slight business uptick. If final sales do increase briskly, this could set the stage for a snapback in business inventory spending. Since November, 1981, total business inventories (manufacturing and trade) have been pared sharply, despite a modest gain in April, as businesses attempted to bring existing stocks into better alignment with sales. To date, they have been at least partially successful. Overall, the inflation-adjusted inventory-to-sales ratio stood at an estimated 1.75 in April, below its 1.79 January peak—and not far from where it has stood, on average, at the bottom of the last three recessions.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/26/82)	136,064	+ 2,178	+17,464
New York City (5/26/82)	34,093	– 1,069	+ 6,073
Commercial Paper (5/26/82)	176,104	– 139	+35,483

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (5/26/82)	208,256	+ 771	+32,299
New York City (5/26/82)	58,678	+ 527	+ 7,330
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/26/82)	482,970	+ 2,122	+48,530
New York City (5/26/82)	112,742	+ 1,083	+ 9,710

Financial Markets

	Friday 6/11/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.62%	+ .12	– 2.16
180-Day Bills†	13.20	+ .20	– 1.48
Longest Bills†	13.56	+ .26	– .70
Recent Issues:			
13¾s 5/31/84	14.14	+ .25	
14s 3/31/86	14.14	+ .24	
13¾s 5/15/92	14.01	+ .15	
14s 11/15/11	13.66	+ .08	
Municipals:			
Bond Buyer–20 Bond Index* (6/10/82)	12.40%	+ .27	+ 1.77
Blue List Total ($ Million)	$1,057	– $134	– $ 23
30-Day Visible Supply ($ Million)	$2,854	+ $502	+ $849
Total	$3,911	+ $368	+ $826
Corporates:			
Moody's Aa Composite (6/10/82)	15.13%	+ .10	+ .74
30-Day Visible Supply ($ Million) ‡	$2,005	+ $ 25	NA
Stocks:			
Dow-Jones Averages:			
Industrials	809.74	+ 4.76	– 196.54
Transportation	318.50	+ 1.43	– 107.84
Utilities	109.96	– .56	– .12
65 Stocks	316.65	+ 1.16	– 72.08
Standard and Poor's 500 Stocks	111.24	+ 1.15	– 22.34
N.Y.S.E. Composite Index	63.94	+ .52	– 13.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,474	+ 7,479	+ 1,436

* 46% Taxable equivalent 22.96%.

† Bond equivalent.

‡ [illegible]

International Rates

	Friday 6/11/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.00%	13.50%
1 month	14.31	14.44
3 month	14.75	14.56
6 month	14.94	14.69
1 year	15.00	14.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.65%	14.57%
Long Term (7 to 15 yrs.)	14.75	14.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/11/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02216	45.13
Canada	.7948	1.2582
Denmark	.1225	8.1605
France	.1598	6.2595
Germany	.4188	2.3880
Italy	.0007544	1325.60
Japan	.004054	246.68
Mexico	.02103	47.55
Netherlands	.3787	2.6405
Switzerland	.4898	2.0418
U.K.	1.7760	.5631

The Manufacturers Hanover Westchester Classic

WHERE:

Westchester Country Club,
Harrison, New York

From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:

Monday, June 21, thru
Sunday, June 27

Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:

Many of the top pros on the PGA TOUR—
including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:

Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:

The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information,
call 914-967-5356

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85350-2 6/21/82

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 21, 1982 VOLUME XIX, NUMBER 25

A Shift From Bills To Bonds . . .

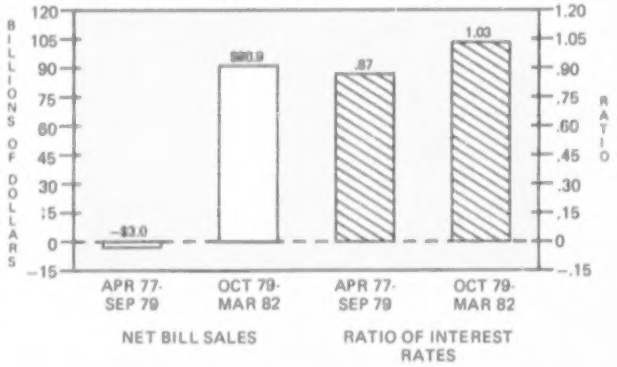
One of the least attractive—though not unexpected—by-products of the Federal Reserve's emphasis on controlling the growth of the supply of money rather than its price has been severe interest rate instability. At a time of record credit demands and monetary restraint, volatile short-term interest rates have plagued all financial market participants—not to mention contributing to the lofty interest rate structure now in place. As a consequence, borrowers and lenders alike have converged in the short end of the debt markets—the former to avoid locking in costly long-term funds, and the latter to seek the more attractive yields prevailing in the money markets. But in so doing, a Catch-22 has emerged: with short-term borrowings surging in hopes of future interest rate declines, rates have done precisely the opposite. They remain high, thus perpetuating bond market disarray and causing yet additional short-term borrowing.

While the increasing reliance on short-term debt by the private sector has received widespread attention, that of the Federal government has not. But just as corporations and now, state and local governments have turned increasingly to short-term finance since the Fed's de-emphasis of interest rate stability in October, 1979 so, too, have the Treasury's debt managers—further clogging the already overcrowded short-term debt markets.

During the ten calendar quarters beginning October 1, 1979 and ending March 31, 1982, almost 40 per cent, or $90 billion, of net new cash raised by the Treasury was derived through sales of three, six and twelve-month bills. By contrast, during the ten calendar quarters prior to October, 1979—when a total of $72 billion of net new cash was raised—there was actually a net paydown of Treasury bills outstanding. Thus, not only has the volume of short-term debt issuance soared, so has its relative importance.

Although increased bill sales may provide greater debt management flexibility, they have also contributed to the virtual disappearance of the positive yield differential between short- and long-term debt. Whereas three-month bill yields stood at about 85 per cent of 30-year bond rates, on average, during the ten quarters prior to October, 1979, short yields averaged approximately 105 per cent of bond rates during the subsequent ten quarters. As a consequence, bond market investors found it was no longer rewarding to commit funds long-term. Rather, short-term investors reaped the highest returns (see chart).

NET NEW CASH RAISED THROUGH BILL SALES
VS. RATIO OF 3-MONTH TO 30-YEAR TREASURY YIELDS



. . . May Be Just What The Doctor Ordered

Thus it can be seen that, not only has the growing volume of Treasury finance contributed to financial market volatility, but so, too, has the pattern of debt issuance. If true, the outlook is bleak. Unless present restrictions now barring new bond issuance are lifted, the Treasury will have to rely even more on shorter-term finance. Net borrowings are likely to approach $50 billion in the third quarter of this year, of which almost half may be raised through bill sales. Both would be new record highs, raising the possibility of higher short-term interest rates and a very short-lived economic recovery—if, indeed, one gets underway at all.

One way to unclog the money markets would be for Washington to aggressively step up its long-term debt sales. True, this means that Washington will be locking in costly, and noncallable, long-term funds. But it could have salutary side effects. For if the Treasury had limited bill sales in this fiscal year to only ten per cent of net new cash to be raised,

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

short-term borrowings would drop by an astonishing $50 billion—not far from the total size of the nonfinancial corporate commercial paper market! What is more, even this proportion of funds raised would be high by historical standards; in fiscal years 1978 and 1979, for example, bill finance accounted for less than two per cent of net new cash raised.

Diminished short-term Federal borrowings would encourage the reemergence of a positively-sloped yield curve—inducing investors to once again lengthen the maturity structure of their assets. As more cash flows into longer-term instruments, corporations would benefit by being able to fund their short-term liabilities in the long-term markets, paying down short-term debt while securing sorely needed long-term investment finance. Even the battered thrift industry could benefit. With their cost of funds falling relative to both mortgage lending rates and yields prevailing on existing assets, the thrifts might turn profitable again at best, or at least slow the hemorrhage of red ink, at worst.

Convertibles May Take . . .

Although the statistics coming from Detroit are still gloomy, there is a glimmer of hope on the horizon. Sales of domestic automobiles have perked up from a low of five million units at an annual rate at the end of April to a 6.2 million pace for the last 40 selling days. Inventories at manufacturers' plants and dealers' lots were pared to only 52 days' sales on June 1—one of the lowest levels in recent years.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/9/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.709	− .237	+11.091
Loans to Depository Inst.	1.306	+ .254	− .899
Float	2.472	+ .029	− 1.179
Total Reserve Bank Credit	151.004	− .230	+ 8.113
Treasury Deposits with Federal Reserve Banks	3.409	+ .571	+ .796
Currency Outside Banks	130.928	+ .623	+ 8.158
Member Bank Reserves:			
Required	38.405	− .527	− .870
Excess (Deficiency)	.150	− .542	− .072
Total Reserves Held	38.555	− 1.069	− .942
Net Borrowed Reserves	.939	+ .839	− .767
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.535	+ 1.500	− 4.875

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	454.4	+ 4.4‡	+ 5.6‡
M2 (May '82)	1,894.7	+ 10.2	+ 9.4
M3 (May '82)	2,275.4	+ 11.0	+ 10.2
L (January '82)	2,659.1	+ 9.1	+ 10.9

†Seasonally adjusted.
*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 6/18/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.50%	12.95%	12.80%
* Federal Agencies	13.40	13.65	14.10
* Project Notes—Taxfree (46% Taxable Equivalent)	14.07	15.00	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.10	15.20	15.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.50%	Jul.	14.30%
15- 29 days	14.13	Aug.	14.40
30- 59 days	14.25	Sep.	14.40
60- 89 days	14.13	Oct.	14.40
90-179 days	13.63	Nov.	14.25
180-239 days	12.88	Dec.	14.00
240-270 days	12.00		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	14.15%		
90-120 days	14.15	Effective Rate	14.13%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 4.3	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	− 3.6%	4.8%
Change in Producer Prices*	May '82	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons)†	May '82	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force†	May '82	9.5%	9.4%	7.5%
Personal Income*	May '82n	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100)†	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	May '82n	140.3	140.6	152.7
Net Change in Consumer Installment Credit†	Apr '82	$ 1.18	$ 0.99	$ 2.72
U.S. Merchandise Trade Balance †	Apr '82	−$ 0.32	−$ 2.64	−$ 3.48
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82n	1,086	888	1,172
New Construction Expenditures*	Apr '82	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Apr '82	$ 508.5	$ 507.6	$ 487.1
Total Business Sales†	Apr '82	$ 339.9	$ 343.1	$ 350.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Demand for a few models has actually outpaced production, keeping them in very short supply.

However, a glance at consumers' balance sheets suggests that car sales should have picked up at a much faster pace. People have curtailed their borrowing in the aftermath of the 1980 credit controls, real incomes have increased as inflation has slowed and household liquid assets are at record levels. This extra purchasing power has not been directed into homes or housing related areas, leaving replacement of aging autos a likely step. The average age of cars now on the road is about seven years—the highest in over 30 years.

What is more, other indicators, which have been traditionally important determinants of future car sales have turned positive. The cost of operating and maintaining a car (including monthly car payments, gasoline, repairs and insurance) has been declining since last December and is now only 2.1 per cent higher than a year ago. Finally, the differential between new and used car prices has narrowed significantly, which in the past signaled a revival in new car sales. What, then, has kept the lid on sales?

. . . The Lid Off Car Sales

It seems that in the scramble for fuel economy, downsized American cars have become underpowered, overpriced and boring. While most people may no longer be interested in making a statement

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/2/82)	135,919	– 142	+16,735
New York City (6/2/82)	33,359	– 734	+ 4,996
Commercial Paper (6/2/82)	176,222	+ 118	+35,880

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/2/82)	209,058	+ 794	+31,926
New York City (6/2/82)	58,927	+ 249	+ 6,777

	Total Loans Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/2/82)	486,088	+ 3,113	+48,305
New York City (6/2/82)	114,121	+ 1,379	+ 8,350

Financial Markets

	Friday 6/18/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.26%	+ .64	– 1.91
180-Day Bills†	14.20	+ 1.00	– .94
Longest Bills†	14.48	+ .92	– .14
Recent Issues:			
$14\frac{3}{8}$s 6/30/84 (When Issued)	14.92	NA	
14s 3/31/86	14.73	+ .59	
$13\frac{3}{4}$s 5/15/92	14.69	+ .68	
14s 11/15/11	14.18	+ .52	
Municipals:			
Bond Buyer—20 Bond Index* (6/17/82)	12.63%	+ .23	+ 1.90
Blue List Total ($ Million)	$1,009	– $ 48	– $ 90
30-Day Visible Supply ($ Million)	$2,168	– $686	– $ 86
Total	$3,177	– $734	– $176
Corporates:			
Moody's Aa Composite (6/17/82)	15.29%	+ .16	+ 1.08
30-Day Visible Supply ($ Million) ‡	$1,375	– $630	NA
Stocks:			
Dow-Jones Averages:			
Industrials	788.62	– 21.12	– 207.57
Transportation	305.01	– 13.49	– 115.22
Utilities	106.70	– 3.26	– 3.56
65 Stocks	306.78	– 9.87	– 78.16
Standard and Poor's 500 Stocks	107.28	– 3.96	– 24.69
N.Y.S.E. Composite Index	61.74	– 2.20	– 15.01
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,928	– 4,546	– 5,518

* 46% Taxable equivalent 23.39%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/18/82	Week Ago
Overnight	14.25%	14.00%
1 month	15.38	14.31
3 month	16.13	14.75
6 month	16.25	14.94
1 year	16.13	15.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.15%	14.65%
Long Term (7 to 15 yrs.)	15.00	14.75

FOREIGN EXCHANGE SPOT RATES New York Opening (6/18/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02125	47.06
Canada	.7738	1.2924
Denmark	.1182	8.4585
France	.1470	6.8025
Germany	.4072	2.4558
Italy	.0007249	1379.50
Japan	.003917	255.30
Mexico	.02095	47.74
Netherlands	.3693	2.7075
Switzerland	.4723	2.1175
U.K.	1.7355	.5762

about themselves by the car they drive, they still want an attractive car at a reasonable price. Two recent examples of such a combination are selling so well that several plants have been running overtime. Production of the new Chevrolet Camaro is 50 per cent higher so far this year than a year ago while sales last month were almost triple those of May, 1981. Output of Pontiac's Firebird is 85 per cent ahead of a year ago while sales last month have more than doubled from last year. The revival of the convertible has also been successful, especially for Chrysler's "K" line.

On the other hand, the increased availability of gasoline at a lower price has prompted a resurgence of interest in some larger models, too. Purchasers of U.S.-made vehicles still apparently prefer to buy by the pound—much to the consternation of domestic producers—believing that a larger car has more value. Furthermore, the older-style models are more attractively priced, since their production costs have long been amortized. This contrasts with the steep retooling costs that manufacturers incurred for the compacts and subcompacts designed since 1979. ■

GOLF FANS' DREAM WEEK

WHAT:
The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club, Harrison, New York
From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:
Monday, June 21, thru Sunday, June 27
Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:
Many of the top pros on the PGA TOUR—
including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:
Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County
Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:
The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

SEE YOU THERE!

MANUFACTURERS HANOVER

MANUFACTURERS HANOVER WESTCHESTER CLASSIC

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B5350-2 6/28/82

The Manufacturers Hanover

Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 28, 1982 VOLUME XIX, NUMBER 26

To Intervene Or Not To Intervene . . .

Two weeks ago, soon after the conclusion of the Versailles summit conference, the United States, much to the surprise of observers of the international currency scene, announced that it had implemented one of the requests made of it at the conference by intervening in the foreign exchange markets. The surprising thing was not only the intervention itself, but the fact that the U.S. announced it immediately thereafter. Although U.S. intervention in the foreign exchange markets had been more or less routine since the inception of floating rates in 1973, the Treasury Department introduced in mid-March 1981 a new policy of nonintervention except in cases of "serious disorder." The question thus arises as to what caused this intervention to occur in mid-June.

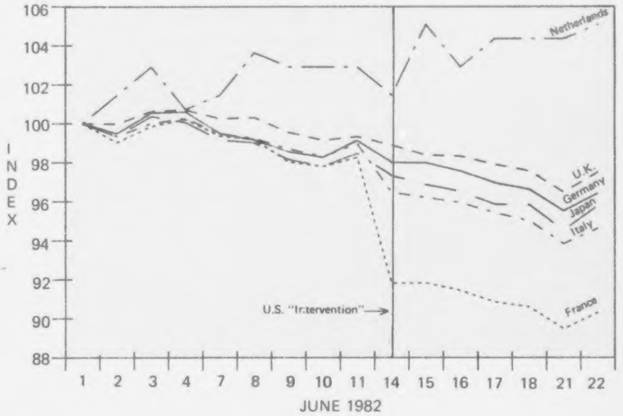
What constitutes a disorderly market may be defined subjectively. One could say that there was some disorder after the devaluation of the French franc and Italian lira and the revaluations of the German mark and Dutch guilder which took place the weekend before the Monday (June 14) intervention by the U.S. But aside from the sharp fall in the franc and the continuing appreciation of the guilder (see chart), the foreign exchange markets did not appear to have been all that disorderly. Were the markets really disorderly, or should we look elsewhere for the reason for U.S. intervention?

. . . That Is The Question

It is instructive to look beyond the immediate conditions of the foreign exchange markets and examine the statements made at the conclusion of the Versailles summit conference. The U.S. had been asked to intervene when necessary, ostensibly to dampen volatile currency fluctuations, but more likely to help push down the value of the dollar. The strong dollar has added to global inflation and recession—not to mention problems with world trade.

The U.S. came to the conference with the intent of pursuing its previous policy of nonintervention, but soon recognized that if it had any chance at all of gaining its objectives—particularly restraining credit to Eastern Europe—it would have to offer something in return. The promise to intervene appeared to be the best method. It had, at this juncture, several advantages. For one thing, the U.S. commitment to intervene can be quickly and easily reversed if U.S. objectives are not met whereas the commitments the U.S. is asking for from its friends tend to be longer lasting. Further, intervention can be easily concealed and is difficult to isolate. Even experienced foreign exchange traders frequently have difficulty determining if intervention has taken place, by whom and to what extent.

DAILY CURRENCY MOVEMENTS AGAINST THE U.S. DOLLAR:
FIRST THREE WEEKS OF JUNE
(JUNE 1, 1982=100)



Intervention is necessarily a secret policy. Government intervention policy and timing, if known to participants in the foreign exchange markets, can be used by speculators as a practically guaranteed way of making a profit. Further, the most difficult problem in implementing an intervention policy is to recognize when intervention is called for and the amount of resources to be committed without "overcorrecting." Hence, governments prefer to retain their freedom of action. Also, central banks operate in the foreign exchange markets daily on a confidential basis for a number of clients—themselves, other central banks and private corporations undertaking large transactions—and for a

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wide range of reasons of which intervention in order to smooth out disorderly markets is only one. For these reasons, the Federal Reserve and the Treasury Department have long had a policy of not publishing U.S. foreign exchange operations until after the event—usually in the following quarter.

Curiously, this time that policy was not observed. Treasury Secretary Regan announced the intervention immediately after it took place, giving strong support to the view that it was a demonstration of international goodwill setting the stage for a possible quid pro quo. This would allow each country participating in the Versailles conference to come away with some realization of its goals.

A Skirmish Lost . . .

For the first time since last September, the monthly rate of inflation has climbed back into double digits. Fueled by sharply higher gasoline, food and housing costs, the consumer price index rose at a seasonally adjusted annual rate of 12 per cent in May, month-over-month. This followed a 2.1 per cent annual rate of rise posted during the previous five months.

However, despite this steep uptick in the CPI, the battle against inflation is not lost. The long-term indicator of inflation—the core rate—continues its descent, food prices show signs of stabilization and gasoline prices have begun to decline once again. What is more, the index for apparel and upkeep

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/16/82	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	140.420	+ 1.711	+11.058
Loans to Depository Inst.	.931	– .375	– .980
Float	2.042	– .455	– 1.631
Total Reserve Bank Credit	152.051	+ 1.021	+ 7.337
Treasury Deposits with Federal Reserve Banks	2.950	– .459	– .246
Currency Outside Banks	131.471	+ .517	+ 8.748
Member Bank Reserves:			
Required	39.344	+ .939	– .884
Excess (Deficiency)	.193	+ .017	– .127
Total Reserves Held	39.537	+ .956	– 1.011
Net Borrowed Reserves	.517	– .396	– .795
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.697	+ 2.162	– 1.156

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	452.5	+ 4.5‡	+ 5.7‡
M2 (May '82)	1,896.9	+ 10.6	+ 9.5
M3 (May '82)	2,277.9	+ 11.4	+ 10.3
L (January '82)	2,659.4	+ 9.1	+ 10.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/25/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.90%	12.18%	12.90%
* Federal Agencies	13.40	14.10	14.30
* Project Notes—Taxfree (46% Taxable Equivalent)	13.70	14.72	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.40	15.65	15.80

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	14.00%	Jul.	14.50%
15- 29 days	14.38	Aug.	14.55
30- 59 days	14.38	Sep.	14.70
60- 89 days	14.38	Oct.	14.75
90-179 days	14.50	Nov.	14.75
180-239 days	13.50	Dec.	14.65
240-270 days	12.00		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	14.38%		
90-120 days	14.50	Effective Rate	14.90%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,998	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,485	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.7	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	May '82n	12.0%	2.4%	9.6%
Change in Producer Prices*	May '82	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	May '82	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force †	May '82	9.5%	9.4%	7.5%
Personal Income*	May '82	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100) †	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	May '82	140.3	140.6	152.7
Net Change in Consumer Installment Credit †	Apr '82	$ 1.18	$ 0.99	$ 2.72
U.S. Merchandise Trade Balance †	May '82n	–$ 3.29	–$ 0.32	–$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82	1,086	888	1,172
New Construction Expenditures*	Apr '82	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Apr '82	$ 508.5	$ 507.6	$ 487.1
Total Business Sales †	Apr '82	$ 339.9	$ 343.1	$ 350.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

declined, while increases in the other major categories of consumer spending were either equal to or smaller than those in April.

One of the most important indicators of an abatement in inflation is the trend in the underlying or "core" rate of inflation which takes into account capital and labor costs. This long-term indicator of price trends shows that the wage-price spiral is winding down. It retreated to an 8.2 per cent rate of increase during the first quarter of 1982 from a 9.3 per cent rate of rise just a year ago, and it probably slowed further in the second quarter. This significant improvement has been aided by the business tax cut implemented in October, 1981 and the recent moderation in labor costs. Most wage settlements in 1982 provided no more than cost-of-living adjustments, and many existing contracts were renegotiated as employees in many ailing industries gave substantial wage concessions. What is more, further improvement in the core rate of inflation is expected with an increase in labor productivity, which should occur once the economy begins to grow.

. . . But The Battle Is Not Over

The major culprit behind May's jump was the 0.9 per cent rise in the cost of gasoline, which accounted for more than three-fifths of the overall rise in the CPI. Cutbacks in production by the OPEC countries,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/9/82)	136,611	+ 692	+19,139
New York City (6/9/82)	33,495	+ 136	+ 5,504
Commercial Paper (6/9/82)	177,024	+ 562	+34,461

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/9/82)	209,577	+ 519	+33,070
New York City (6/9/82)	59,212	+ 285	+ 7,516

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/9/82)	485,524	– 559	+49,048
New York City (6/9/82)	112,696	– 1,425	– 9,283

Financial Markets

	Friday 6/25/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.60%	+ .34	– 1.21
180-Day Bills†	14.28	+ .08	– .78
Longest Bills†	14.46	– .02	– .21
Recent Issues:			
14 3/8s 6/30/84 (When Issued)	14.90	– .02	
14s 3/31/86	14.78	+ .05	
13 3/4s 5/15/92	14.62	– .07	
14s 11/15/11	14.14	– .04	
Municipals:			
Bond Buyer–20 Bond Index* (6/24/82)	12.62%	– .01	+ 1.88
Blue List Total ($ Million)	$ 971	– $ 38	– $ 919
30-Day Visible Supply ($ Million)	$2,276	+ $108	+ $1,151
Total	$3,247	+ $ 70	+ $232
Corporates:			
Moody's Aa Composite (6/24/82)	15.59%	+ .36	+ 1.25
30-Day Visible Supply ($ Million) ‡	$1,365	– $ 10	NA
Stocks:			
Dow-Jones Averages:			
Industrials	803.08	+ 14.46	– 189.79
Transportation	315.35	+ 10.34	– 104.02
Utilities	106.57	– .13	– 2.19
65 Stocks	312.73	+ 5.95	– 70.50
Standard and Poor's 500 Stocks	109.14	+ 1.86	– 23.56
N.Y.S.E. Composite Index	62.72	+ .98	– 14.25
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,736	+ 3,808	+ 8,004

* 46% Taxable equivalent 23.37%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 6/25/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.88%	14.25%
1 month	15.63	15.38
3 month	16.38	16.13
6 month	16.63	16.25
1 year	16.44	16.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.90%	15.15%
Long Term (7 to 15 yrs.)	15.00	15.00

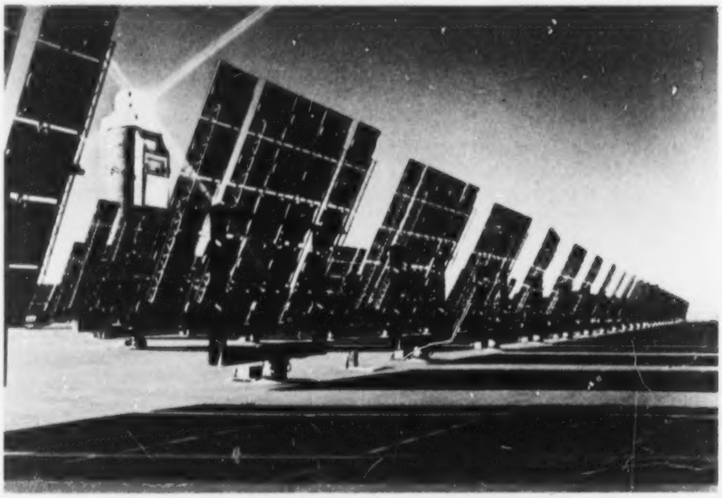
FOREIGN EXCHANGE SPOT RATES

New York Opening (6/25/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02106	47.48
Canada	.7777	1.2858
Denmark	.1161	8.6100
France	.1445	6.9200
Germany	.4014	2.4910
Italy	.0007140	1400.60
Japan	.003893	256.85
Mexico	.02086	47.93
Netherlands	.3634	2.7515
Switzerland	.4709	2.1235
U.K.	1.7215	.5809

drawdowns of world inventories and the war in the Middle East had pushed up the spot price of oil, which reflects market supply and demand conditions, by almost $5 per barrel during the two months ending in mid-May. However, since then the price of oil has fallen due to continued sluggish demand.

As a result, many distributors and resellers of petroleum products in the United States decided to replenish their inventories to take advantage of low prices. For example, distributors of distillate fuels depleted their stocks at the end of the last heating season to almost 25 per cent of storage capacity, which is estimated at 40 to 50 million barrels. Now storage supplies have been raised to more normal levels. Similarly, gasoline suppliers have replenished their stocks. However, this increased demand is not an indicator of any true increase in consumption, but rather a one-time adjustment of inventories.

Food prices at grocery stores also rose sharply last month, advancing one per cent compared with April. Meat prices posted the sharpest increases as a result of sizable reductions in red meat supplies in general and pork supplies in particular. The number of hogs and pigs on U.S. farms is now 13 per cent below a year ago—the lowest June 1 inventory since 1975. However, supplies of pork are not expected to decline much further. What is more, the spot price index of foodstuffs has been declining since the end of May, as a result of lower vegetable, grain and soybean prices, and weak export markets. ■



Solar testing facility near Albuquerque, New Mexico

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

FRIDAY, JULY 2, 1982 VOLUME XIX, NUMBER 27

Tax Cut Not Much Help . . .

To the cheer of many American consumers, retailers and manufacturers, the long-awaited ten per cent cut in personal income tax rates went into effect this week. Although the Administration originally hoped the cut would spur savings and investment, it now wishes that the newly available funds will be spent to lift the economy out of recession. This tax cut is expected to add $33 billion to people's incomes during the 12 months which began on July 1. When combined with the annual cost-of-living adjustment received by people on Social Security—also effective on July 1—the addition to consumer incomes will total $45 billion.

However, although the addition to total disposable incomes is large, a speedy pickup in spending, leading to an accelerated economic recovery, is not guaranteed. The average per capita weekly increase in take-home pay is small—less than $4. Therefore, a large part of the tax cut may be saved, especially at the beginning, as it goes almost unnoticed. What is more, any increase in consumption will probably not be directed into areas where it is needed most, such as automobiles, housing or big-ticket durables. More likely to benefit will be soft goods industries including apparel, cosmetics and food.

Importantly, in many cases, the weekly addition to take-home pay will not equal ten per cent of the pre-July 1 tax. Withholding rates have been recalculated and taxpayers with lower taxable incomes will get slightly more than ten per cent— especially those with fewer exemptions—while upper-income taxpayers will receive somewhat less. This will occur because the withholding rate tops out at 37 per cent of income while income tax liability can be as high as 50 per cent. The final adjustment will be made in the form of a tax refund or an additional payment on April 15.

. . . But Not Needed, Either

Personal income improved in May, registering the largest increase since September, 1981. Before-tax income increased by $16.6 billion or 0.7 per cent compared with April. Almost one-half of this rise was a result of a $7.8 billion growth in wages and salaries, paralleling the growth in employment and the increase in the average workweek. The largest payroll gains were in motor vehicles, electrical machinery, food and lumber industries, while the primary metals industry posted a decline. However, wages and salaries may have suffered a setback in June. Total employment fell 353,000 to a seasonally adjusted 99.8 million persons, after rising 777,000 in May. What is more, the average workweek for non-farm workers declined.

As the number of unemployed rose in May, it contributed to the sharp increase in transfer payments. In fact, recently, transfer payments have been the second fastest growing component of personal incomes. This growth probably did not continue into June as the number of unemployed decreased 1.2 per cent following a rise of 2.3 per cent in May.

Although high interest rates have flattened residential construction, contributed to the slump in auto sales and dampened business investment for almost three years, they have given a substantial boost to personal incomes. Since October, 1979—the month when the Fed switched its primary objective from managing interest rates to managing the money supply—interest income has become the fastest rising component of personal incomes. It expanded by almost 60 per cent during this period, compared with a rise of 22.7 per cent for all other components. In May, interest income increased by $4.2 billion, month-over-month and with the recent backup in interest rates it probably rose faster in June.

At the other end of the income spectrum is the farm sector. Although farmers had one of the best years in 1979, since then high interest rates and energy costs have significantly raised their production costs. At the same time, they were burdened by the drought in 1980 followed by surpluses of crops and meats in 1981. As a result, farm income has declined for the third year in a row, and is now less than one-half of that posted in May, 1979. In "real" terms, adjusted for inflation, the drop is even steeper.

In May, farm proprietors' incomes, at a seasonally adjusted annual rate of $15 billion, were unchanged from April, despite a slight improvement in the ratio of prices received to prices paid. Prices that farmers

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received for their products in May rose three per cent compared with the previous month, while their costs of production—including commodities and services, interest, taxes and wages—rose 0.5 per cent.

However, the picture worsened in June, portending that farm income is headed lower. Prices that farmers received for their products dropped by 0.7 per cent in June—the first monthly decline of the year. Although hog prices were the highest since October, 1975, this rise was more than offset by lower prices for wheat, cotton, soybeans, hay and eggs. At the same time, prices farmers paid to meet expenses rose 0.6 per cent. As a result, the prices received to prices paid ratio has once again declined in June deteriorating to 88 from 95 a year earlier (1977=100). At 100, the indicator would mean that farmers have the same buying power they had in 1977.

Another Bumper Grain Crop . . .

Contributing to the problems of U.S. farmers this year will be increased competition from abroad. Besides the huge grain crop in the U.S., most of the other grain exporting nations are also expecting bumper harvests this year after record or near record harvests in the 1981/82 growing season. The global wheat harvest for 1982/83 is now estimated to be close to 462 million metric tons, up two per cent from last year's record harvest. Other grains which are important for food or feed are also expected to be in abundant supply. The global coarse grain har-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/23/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.573	+ .153	+10.064
Loans to Depository Inst.	1.015	+ .084	− 1.287
Float	2.079	+ .032	− .535
Total Reserve Bank Credit	152.809	+ .753	+ 6.826
Treasury Deposits with Federal Reserve Banks	3.730	+ .780	+ .709
Currency Outside Banks	131.129	− .347	+ 7.697
Member Bank Reserves:			
Required	39.554	+ .210	− .716
Excess (Deficiency)	.281	+ .061	− .133
Total Reserves Held	39.835	+ .271	− .849
Net Borrowed Reserves	.480	− .009	+ 1.101
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.502	− 3.195	+ 4.344

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	449.9	+ 4.0‡	+ 5.6‡
M2 (May '82)	1,897.1	+ 10.6	+ 9.5
M3 (May '82)	2,278.1	+ 11.4	+ 10.3
L (February '82)	2,698.8	+ 10.6	+ 11.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/2/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.50%	12.85%	12.70%
* Federal Agencies	13.30	13.85	14.20
* Project Notes—Taxfree (46% Taxable Equivalent)	13.89	14.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.15	15.25	15.10

‡ Finance Company Paper—Prime	
5- 14 days	15.38%
15- 29 days	14.50
30- 59 days	14.63
60- 89 days	14.50
90-179 days	14.50
180-239 days	13.50
240-270 days	13.50

‡* Bankers' Acceptances	
Aug.	14.55%
Sep.	14.55
Oct.	14.50
Nov.	14.50
Dec.	14.50
Jan.	14.30

‡ Industrial Paper—Prime	
30- 89 days	15.38%
90-120 days	14.88

† Federal Funds Effective Rate 14.75%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,998	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,485	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 3.7	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	May '82	12.0%	2.4%	9.6%
Change in Producer Prices*	May '82	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	Jun '82n	99,764	100,117	100,430
Unemployment as % of Civilian Labor Force †	Jun '82n	9.5%	9.5%	7.4%
Personal Income*	May '82	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100) †	May '82n	127.7	127.3	136.0
Industrial Production Index (1967=100) †	May '82	140.3	140.6	152.7
Net Change in Consumer Installment Credit †	Apr '82	$ 1.18	$ 0.99	$ 2.72
U.S. Merchandise Trade Balance †	May '82	−$ 3.29	−$ 0.32	−$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82	1,086	888	1,172
New Construction Expenditures*	May '82n	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories †	Apr '82	$ 508.5	$ 507.6	$ 487.1
Total Business Sales †	Apr '82	$ 339.9	$ 343.1	$ 350.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure a-Anticipated.

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vest this year is currently estimated at 772 million metric tons, about the same as last year's production. At the end of the 1981/82 crop year, the total world grain carry-over stocks were estimated to be 215 million metric tons compared with 180 million metric tons the year before. At the end of this crop year, the residual inventory may rise to a record 240 million metric tons, more than this year's total world grain exports (216 million metric tons).

This news has both its good and bad aspects. Ample crops mean continued downward pressure on domestic food costs as well as abundant supplies for export. On the other hand, this year's excess grain supply will add to the already huge unsold grain inventories from last year with consequent further depressing effects on both domestic and world market prices. Competition for export markets will be fierce as exporting nations struggle to unload their excess inventories.

Several countries in addition to the United States—including Canada, Mexico, Greece and Italy—are expecting increased yields this production year. Cool spring weather and plentiful moisture have favored grain growth in most grain exporting countries of the Free World. Canadian farmers, for example, may produce as much as 45 million metric tons of grain this year, almost eight per cent over last year's record of 42.1 million metric tons.

Offsetting these bumper crops are Russia's continuing

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/16/82)	135,786	– 828	+19,695
New York City (6/16/82)	33,765	+ 270	+ 6,212
Commercial Paper (6/16/82)	176,962	– 62	+33,197

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/16/82)	209,527	– 62	+30,728
New York City (6/16/82)	59,645	+ 433	+ 7,022

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/16/82)	486,050	+ 528	+45,477
New York City (6/16/82)	114,220	+ 1,524	+ 8,108

Financial Markets

	Friday 7/2/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.10%	– .50	– 2.06
180-Day Bills†	13.92	– .36	– 1.54
Longest Bills†	14.17	– .29	– .88
Recent Issues:			
14$\frac{3}{8}$s 6/30/84	14.52	– .38	
14$\frac{7}{8}$s 6/30/86	14.65	NA	
13$\frac{3}{4}$s 5/15/92	14.35	– .27	
14s 11/15/11	13.92	– .22	
Municipals:			
Bond Buyer–20 Bond Index* (7/1/82)	12.58%	– .04	+ 1.73
Blue List Total ($ Million)	$ 876	– $ 95	– $237
30-Day Visible Supply ($ Million)	$2,242	– $ 34	+ $546
Total	$3,118	– $129	+ $309
Corporates:			
Moody's Aa Composite (7/1/82)	15.45%	– .14	+ .89
30-Day Visible Supply ($ Million) ‡	$1,375	+ $ 10	NA
Stocks:			
Dow-Jones Averages:			
Industrials	796.99	– 6.09	– 162.20
Transportation	314.60	– .75	– 95.00
Utilities	106.17	– .40	– .57
65 Stocks	310.97	– 1.76	– 61.44
Standard and Poor's 500 Stocks	107.65	– 1.49	– 21.00
N.Y.S.E. Composite Index	61.99	– .73	– 12.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,940	– 3,796	+ 14,142

* 46% Taxable equivalent 23.30%.

† Bond equivalent.

International Rates

	Friday 7/2/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.00%	14.88%
1 month	15.50	15.63
3 month	15.88	16.38
6 month	16.13	16.63
1 year	15.94	16.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.90%	14.90%
Long Term (7 to 15 yrs.)	15.00	15.00

FOREIGN EXCHANGE SPOT RATES

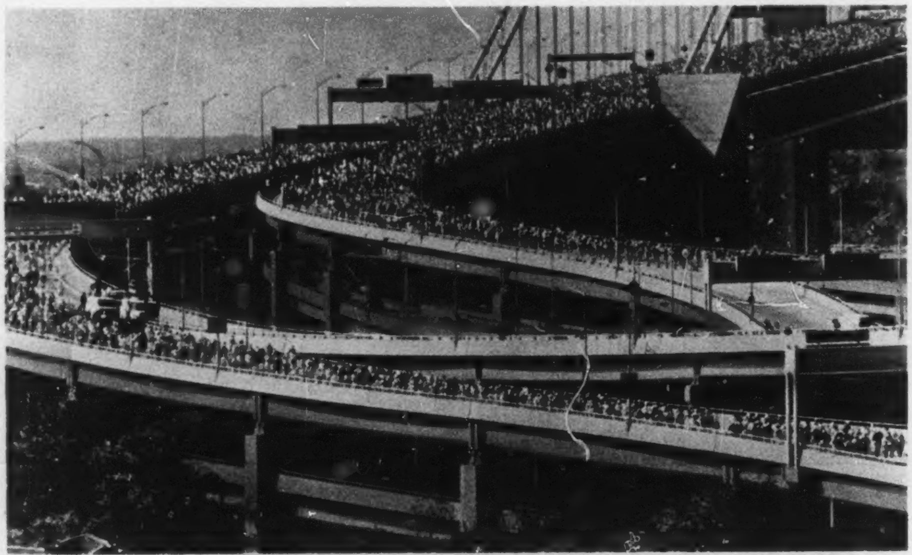
New York Opening (7/2/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02124	47.07
Canada	.7760	1.2887
Denmark	.1175	8.5115
France	.1463	6.8375
Germany	.4058	2.4640
Italy	.0007219	1385.20
Japan	.003913	255.55
Mexico	.02078	48.13
Netherlands	.3674	2.7215
Switzerland	.4771	2.0958
U.K.	1.7357	.5761

ing agricultural difficulties. The Soviet Union is expecting its fourth poor grain harvest in as many years as diminished planting acreage and bad weather during the early part of the growing season have taken their toll. Recent estimates of total 1982 Soviet grain production have been reduced by ten per cent to 185 million metric tons. The Soviet agricultural plan targeted grain production this year at 238 million metric tons. If this latest forecast turns out to be accurate, it will mean that exports of grain from the free world to the Soviet Union will again be substantial, perhaps as much as the 44 million metric tons which the Soviets are reported to have imported last year. It is not likely, however, that the entire gap between the Soviet domestic harvest and the production plan—53 million metric tons—will be imported, due to their shortage of hard currencies as well as other external claims on Soviet financial resources.

Harvests are also expected to be poor in other Eastern European countries adding to demand for grain imports. China, too, is suffering from damage to its grain crop as a result of unusually hot and dry weather in some of its production areas. But again, lack of suitable foreign exchange will limit their ability to import.

. . . Will Roil World Grain Markets

World grain markets have been upset recently not only by excess supplies, fierce competition, and low prices, but by political factors as well. The present state of US-USSR relations has called into question the prospects for an extension or an expansion of the US-Soviet grain sale agreement which expires September 30. The Russians are also seeking easier credit terms for their grain purchases, pitting their shortage of hard currency against the huge western inventories and low prices. Thus, all the elements are in place for a period of extensive instability and volatility in world grain markets. Oversupply, sluggish growth in demand, low prices, fierce export competition in a recessionary world economic environment and the breakup of traditional grain export-import relationships as well as the politicization of grain marketing will all be factors with which exporters, particularly in the U.S., will have to contend in the coming year. 🅷



The New York City Marathon, co-sponsored by Manufacturers Hanover

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

For example, our subsidiaries now have more offices nationwide than any other bank holding company, giving us instant access to both large and middle market companies. This enables us to provide other financial services besides banking—factoring, equipment financing, and mortgage lending.

But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 12, 1982

VOLUME XIX, NUMBER 28

Business Failures Mount . . .

The economy is now exhibiting signals which suggest that a turning point may have been reached. In May, the index of leading economic indicators rose for the third month in a row, housing starts edged up over the one million unit mark, at a seasonally adjusted annual rate, for the first time in almost a year and the unemployment rate stabilized. What is more, new factory orders rose 1.5 per cent, month-over-month, with the largest gain posted by the consumer sector. But although these encouraging developments are welcome, they have arrived too late for the many companies which have already fallen victim to lofty interest rates, sharply rising production costs, eroding profits, low productivity and sluggish consumer demand.

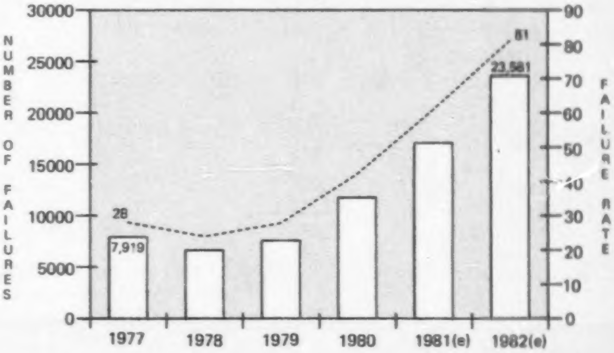
Since 1980, the number of bankruptcies has more than doubled while the failure rate has soared from 42 per 10,000 companies to an estimated 81 per 10,000 so far in 1982 (see chart opposite). In 1981, the number of failures stood 45 per cent higher than in 1980, and during the first six months of this year they soared another 44 per cent over the same period a year ago. What is more, the number of companies filing for bankruptcy during the two-week period ending on June 17 was the highest since the Great Depression.

. . . In The United States . . .

Many businesses incurred sizable losses despite cutting wages and benefits, laying off workers, paring inventories and eliminating unprofitable product lines. The manufacturing sector was hit the hardest. Casualties rose by an estimated 57 per cent during the first half of 1982, compared with the same period a year ago, following a 41 per cent jump in 1981. In other industries, such as transportation, these problems were compounded by changes in government regulation. The service sector, which includes trucking and airlines, posted an increase of 51 per cent in business failures during the first five months of 1982, following a rise of the same size in the previous year.

Bankruptcies among wholesalers and retailers represent by far the largest proportion of total failures. So far this year, 37 per cent more retailers went out of business than during the comparable period a year ago. One important reason is that, in the face of sluggish consumer demand, they have been conducting frequent sales to entice shoppers into their stores, but by so doing have further squeezed already diminished cash flows. Bankruptcies among wholesalers shot up 56.5 per cent during the first five months of the year compared with the same period a year ago. Caught between reduced orders from retailers and rising inventories, wholesalers have been traditionally the slowest to adjust to changes in economic activity, and thus hurt the most.

TOTAL BUSINESS FAILURES (BAR) VS.
FAILURE RATE PER 10,000 COMPANIES (DOT)



. . . Europe and Japan

The United States is not the only country experiencing an upsurge in business failures. Most of the other industrial countries have also seen a growing number of enterprises succumbing to the combination of high borrowing costs and sluggish demand. Although the bankrupt firms are of all

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sizes and in all sectors of the economy, the hardest hit have been small- and medium-sized companies with low capitalization and limited financial resources. What is more, such firms usually serve only national markets and are unable to compensate for declining sales at home by exporting. Thus, they are particularly sensitive to changes in the domestic business cycle. Even the larger firms, however, have suffered in the past two years from the slow growth of world trade and rising competition as each country seeks to expand its export markets.

In Germany, the number of business failures rose by 27.4 per cent in 1981 over the year before, after a 9.5 per cent increase in 1980. This year another increase of close to 30 per cent has been estimated based upon data for the first three months of this year as well as the expectation of another year of low real growth for the German economy. In 1981, inflation-adjusted GNP actually declined by two-tenths of one per cent and this year it is expected to grow by less than one per cent in an environment of high interest rates and rising unemployment. Business failures have been particularly high in the construction and service sectors. Furthermore, insolvencies among small- and medium-sized firms ran 67 per cent higher in the first three months of this year than in the same period in 1981.

The number of bankruptcies in France has also

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/30/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	139.460	− 1.113	+ 9.329
Loans to Depository Inst.	1.616	+ .601	− .115
Float	1.808	− .254	− 1.477
Total Reserve Bank Credit	151.318	− .874	+ 5.794
Treasury Deposits with Federal Reserve Banks	3.140	− .590	− .073
Currency Outside Banks	130.215	− .930	+ 7.233
Member Bank Reserves:			
Required	39.799	+ .245	− 1.048
Excess (Deficiency)	.707	+ .459	+ .276
Total Reserves Held	40.506	+ .704	− .772
Net Borrowed Reserves	.641	+ .128	+ .199
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.122	+ 4.620	− 1.352

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	445.9	+ 2.7‡	+ 5.2‡
M2 (June '82)	1,906.6	+ 8.9	+ 9.5
M3 (June '82)	2,294.2	+ 10.4	+ 10.2
L (February '82)	2,698.8	+ 10.6	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/9/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.50%	12.00%	12.00%
* Federal Agencies	12.70	13.25	14.05
* Project Notes—Taxfree (46% Taxable Equivalent)	13.43	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.00	14.15	14.50

‡Finance Company Paper—Prime	
5- 14 days	13.50%
15- 29 days	13.00
30- 59 days	13.00
60- 89 days	13.00
90-179 days	13.13
180-239 days	12.88
240-270 days	12.88

‡* Bankers' Acceptances	
Aug.	13.45%
Sep.	13.45
Oct.	13.45
Nov.	13.40
Dec.	13.30
Jan.	13.20

‡Industrial Paper—Prime	
30- 89 days	13.50%
90-120 days	13.55

†Federal Funds Effective Rate 13.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,998	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,485	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 3.7	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	May '82	12.0%	2.4%	9.6%
Change in Producer Prices*	May '82	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons)†	Jun '82	99,764	100,117	100,430
Unemployment as % of Civilian Labor Force†	Jun '82	9.5%	9.5%	7.4%
Personal Income*	May '82	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100)†	May '82	127.7	127.3	136.0
Industrial Production Index (1967=100) †	May '82	140.3	140.6	152.7
Net Change in Consumer Installment Credit†	May '82n	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	May '82	−$ 3.29	−$ 0.32	−$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82	1,086	888	1,172
New Construction Expenditures*	May '82	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories†	Apr '82	$ 508.5	$ 507.6	$ 487.1
Total Business Sales†	Apr '82	$ 339.9	$ 343.1	$ 350.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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soared. There were 20.3 per cent more failures in 1981 than in 1980 as real growth in the French economy fell to less than one per cent. In the first five months of this year, French business failures have continued at about the same rate as last year. In addition to the cyclical economic problems afflicting all of the developed economies, the French economy is also undergoing a number of structural changes brought about by the sharp redirection in economic policy introduced by the present government after the elections in May, 1981.

In the United Kingdom, even though the pace at which business bankruptcies are occurring has slowed, a record number of British businesses failed in 1981. After a huge 37.6 per cent increase in the number of business failures in 1980 over 1979, in 1981 business failures rose by a further 26.4 per cent. This trend can be attributed to the restrictive policies of the present British government, which were first implemented in 1979 and are still working their way through the economy. In 1980, real GNP in the United Kingdom fell by 1.7 per cent and in 1981 by nine-tenths of one per cent.

The number of business failures actually declined in Japan last year, with 5.7 per cent fewer failures than in 1980, when tight monetary policies were in effect in order to limit the inflation rate impact of the hike in oil prices. Recently, however,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/23/82)	135,453	– 363	+15,600
New York City (6/23/82)	33,127	– 638	+ 4,296
Commercial Paper (6/23/82)	180,378	+ 3,406	+34,157

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/23/82)	208,505	– 984	+29,268
New York City (6/23/82)	58,861	– 784	+ 6,867

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/23/82)	484,712	– 1,277	+44,493
New York City (6/23/82)	112,897	– 1,323	+ 8,645

Financial Markets

	Friday 7/9/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.75%	– 1.35	– 3.86
180-Day Bills†	12.60	– 1.32	– 2.70
Longest Bills†	13.00	– 1.17	– 1.85
Recent Issues:			
$14\frac{3}{8}$s 6/30/84	13.40	– 1.12	
$14\frac{7}{8}$s 6/30/86	13.80	– .85	
$13\frac{3}{4}$s 5/15/92	13.72	– .63	
14s 11/15/11	13.36	– .56	
Municipals:			
Bond Buyer–20 Bond Index* (7/8/82)	12.47%	– .11	+ 1.50
Blue List Total ($ Million)	$ 824	– $ 52	– $147
30-Day Visible Supply ($ Million)	$1,710	– $532	– $296
Total	$2,534	– $584	– $443
Corporates:			
Moody's Aa Composite (7/8/82)	15.44%	– .01	+ .76
30-Day Visible Supply ($ Million) ‡	$1,425	+ $ 50	NA
Stocks:			
Dow-Jones Averages:			
Industrials	814.12	+ 17.13	– 141.55
Transportation	320.59	+ 5.99	– 83.17
Utilities	106.82	+ .65	– .82
65 Stocks	316.70	+ 5.73	– 53.74
Standard and Poor's 500 Stocks	108.83	+ 1.18	– 20.55
N.Y.S.E. Composite Index	62.54	+ .55	– 12.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,916	+ 3,976	+ 6,922

* 46% Taxable equivalent 23.09%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

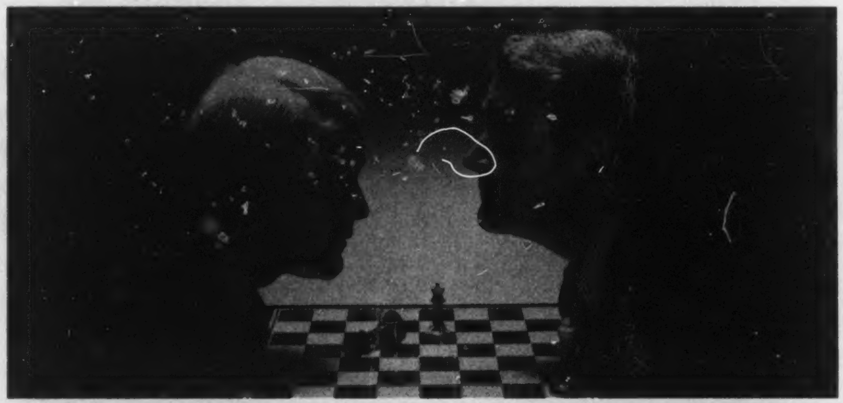
EURODOLLAR DEPOSIT RATES (bid)	Friday 7/9/82	Week Ago
Overnight	13.00%	15.00%
1 month	14.88	15.50
3 month	15.31	15.88
6 month	15.56	16.13
1 year	15.56	15.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.90%
Long Term (7 to 15 yrs.)	14.85	15.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/9/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02113	47.33
Canada	.7831	1.2770
Denmark	.1162	8.6050
France	.1447	6.9100
Germany	.4024	2.4850
Italy	.0007168	1395.10
Japan	.003926	254.70
Mexico	.02069	48.33
Netherlands	.3644	2.7440
Switzerland	.4728	2.1150
U.K.	1.7275	.5789

business insolvencies have begun to rise again, influenced by slack domestic demand and a weakening of the export market which many small- and medium-sized Japanese firms serve either directly or as subcontractors.

The swelling tide of bankruptcies, along with skyrocketing unemployment (Financial Digest—May 24, 1982), is further evidence of the depth and persistence of the current global economic slowdown. And while business failures mean not only personal financial losses to proprietors and stockholders, as well as jobs, they also represent a reduction in a nation's stock of business investment and productive capacity—losses which take longer, and are more difficult, to make up. ■



When you have only one serious competitor in the stock transfer business, you have to be better. Or else.

There's nothing wrong with a little competition. It keeps us on our toes. And it keeps our competitor on his toes.

But do you know what really makes the Manufacturers Hanover approach to stock transfer better? Do you know that Manufacturers Hanover officers are leaders in the industry? Do you know why we're committed to a business other banks are leaving?

Read on.

TRANSIFAC℠ has no competition. Period.

First, there's TRANSIFAC. The system that does everything our competitor's system does—and a lot of things it can't.

It has "key verification." A feature that helps ensure transfer data is entered accurately.

TRANSIFAC also allows the immediate on-line up-date of shareholder records. We even pioneered the use of computer-to-computer transfers with the Depository Trust Company. As well as direct mailings of certificates to the broker's customer—your shareholder.

In short, TRANSIFAC has so many advantages, we can't list them all here.

A reputation built on dedication.

We also know how important people are in the stock transfer business. And our organization reflects it. You're assigned an account administrator to handle everyday matters. Plus a back-up team. So you'll never be left in the dark.

These are the strengths and capabilities that allow us to work for over 400 corporations. But you'd expect them from a stock transfer agent generally acknowledged to be the best there is. And it's all part of our commitment to be even better. Because when you have only one real competitor in a very demanding business, you have no choice.

If you'd like to compare our capabilities to those of your current stock transfer agent, call or write Joseph Unger, Vice President, Manufacturers Hanover, 40 Wall Street, New York, N.Y. 10015. Telephone (212) 623-7542.

Just say the competition sent you.

MANUFACTURERS HANOVER

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JULY 19, 1982 VOLUME XIX, NUMBER 29

If Consumer Spending Falters . . .

Despite widespread predictions that a consumer-led recovery may be near, such expectations received an unwelcome jolt last week. According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, dropped 1.5 per cent in June month-over-month, following a strong 2.7 per cent gain in May. To be sure, this development does not necessarily preclude a midsummer rebound—since it primarily reflects an abrupt easing of auto sales—but it might delay it. For while households may be unwilling to boost spending for long in today's economic environment, businesses are largely unable to do so—hard-hit by weak final sales, still escalating costs, sluggish productivity growth and sizable chunks of idle capacity.

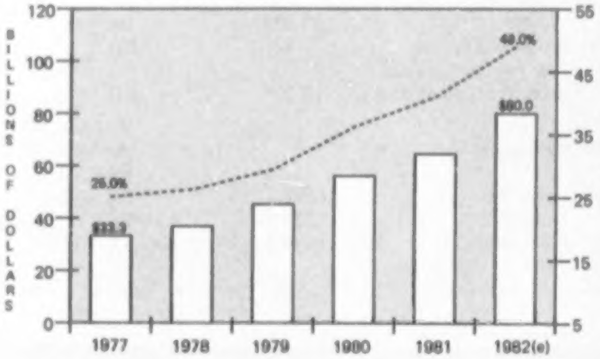
Perhaps the most obvious result of this dismal combination of factors has been a severe erosion of corporate profitability. With the economy mired in a deep slump, before-tax corporate profits fell by a huge $63 billion, or almost 30 per cent, during the six months ending March 31, to a seasonally adjusted $172 billion annual rate. This two-quarter earnings drop far exceeds its nearest rival for this dubious honor: namely, the $35 billion, or 25 per cent, decline in before-tax profits which occurred during the last two quarters of the 1973-75 recession. Nor is the outlook much brighter. Judging by the initial flurry of second quarter earnings reports, corporate profits remained soggy, especially in many basic manufacturing industries.

Not surprisingly, with corporate earnings in a free fall and cash flows squeezed, business dependence upon debt has grown. And since an ever-larger proportion of this debt has been of short maturity, acquired at or near record high interest rates, most traditional indicators of corporate financial health have weakened. One measure, the ratio of short-term liabilities to total liabilities, surged to its highest level ever in the first quarter of 1982—about 43 per cent. What makes this such a disturbing development is that corporations are usually refunding large amounts of short-term debt in the long-term markets at this stage of the business cycle, thereby taking the opportunity to reduce, rather than enhance, their vulnerability to abrupt changes in borrowing costs and/or credit availability.

. . . Neither Business Spending . . .

With the bond markets both volatile and costly, however, this process has not occurred. As a result, expensive short-term debt has aggravated business illiquidity, especially the corporate interest burden.

NET CORPORATE INTEREST EXPENSE (BAR) VS. CORPORATE INTEREST BURDEN (DOT)



As shown in the chart, interest outlays alone could reach $80 billion in 1982, almost 2½ times that of just five years ago. What is more, the proportion of net cash flow absorbed by interest payments may soar as high as 49 per cent this year.

These difficulties suggest that the level of dividends paid by many companies may be vulnerable. To date, cash distributions economy-wide have continued to rise, running at a seasonally adjusted $67 billion annual rate in the first quarter of 1982. This was about $1 billion higher than cash payouts in the fourth quarter and, interestingly, a sizable

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$7 billion above first-quarter 1981 levels—when after-tax profits were more than $50 billion higher. Thus, the ratio of dividends paid to after-tax earnings, the dividend payout ratio, hit 57 per cent in the first quarter, a new record high.

If corporate earnings slump further and firms attempt to either increase, or even maintain existing dividend payments, the dividend payout ratio will spike higher—and place another heavy strain on corporate balance sheets. Already, the pace of dividend increases has slowed sharply. During the first three months of this year, the number of dividend hikes was down 24 per cent compared with the same period a year ago; in the second quarter, it was off almost 40 per cent.

. . . Nor Exports . . .

It is equally unlikely that the export sector will pull the U.S. economy out of its present doldrums this year. In spite of the fact that exports have become an increasingly important contributor to the U.S. economy in recent years, the combination of a strong dollar and global recession has hit U.S. exports hard. Although the value of exports rose six per cent, to $233.7 billion (fas) in 1981, export volume fell by more than three per cent. Further, most of the growth in export value in 1981 occurred

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/7/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.041	+ 1.581	+10.027
Loans to Depository Inst.	1.072	− .544	− .792
Float	1.767	+ .025	− 1.142
Total Reserve Bank Credit	153.204	+ 1.359	+ 6.688
Treasury Deposits with Federal Reserve Banks	3.370	+ .230	+ .436
Currency Outside Banks	131.957	+ 1.699	+ 7.710
Member Bank Reserves:			
Required	39.214	− .585	− .815
Excess (Deficiency)	.694	+ .097	+ .268
Total Reserves Held	39.908	− .488	− .547
Net Borrowed Reserves	.127	− .624	− 1.070
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.196	+ .074	− .174

Monetary Aggregates†			% Change Since Three Months Ago*	% Change Since Year Ago
M1		451.3	+ 0.5‡	+ 4.8‡
M2	(June '82)	1,906.9	+ 8.9	+ 9.5
M3	(June '82)	2,294.2	+ 10.4	+ 10.2
L	(February '82)	2,687.2	+ 8.8	+ 11.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 7/16/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.50%	9.50%	11.30%
* Federal Agencies	12.28	13.37	14.24
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	14.35	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.05	14.00	14.50

‡Finance Company Paper—Prime	
5- 14 days	12.38%
15- 29 days	12.75
30- 59 days	13.00
60- 89 days	13.00
90-179 days	12.88
180-239 days	12.00
240-270 days	12.00

‡* Bankers' Acceptances	
Aug.	13.35%
Sep.	13.40
Oct.	13.40
Nov.	13.40
Dec.	13.35
Jan.	13.10

‡Industrial Paper—Prime	
30- 89 days	13.38%
90-120 days	13.38

†Federal Funds Effective Rate 12.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,998	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,485	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	− 3.7	− 4.5	8.6
Change in Consumer Prices (all urban consumers)*	May '82	12.0%	2.4%	9.6%
Change in Producer Prices*	Jun '82n	12.0%	0.0%	7.2%
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Unemployment as % of Civilian Labor Force†	Jun '82	9.5%	9.5%	7.4%
Personal Income*	May '82	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100)†	May '82	127.7	127.3	136.0
Industrial Production Index (1967=100) †	Jun '82n	138.4	139.4	152.9
Net Change in Consumer Installment Credit†	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	May '82	−$ 3.29	−$ 0.32	−$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82	1,086	888	1,172
New Construction Expenditures*	May '82	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories†	May '82n	$ 505.7	$ 510.1	$ 490.3
Total Business Sales†	May '82n	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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in the first quarter of the year. Virtually every month since then, the value of exports has deteriorated. In the first five months of this year, exports were running at a seasonally adjusted $221 billion annual rate, about five per cent below the level for all of 1981.

The erosion in U.S. exports has been widespread both in terms of commodities and customers. From January through May of this year, exports of manufacturers (65 per cent of total exports) were almost eight per cent below the levels for the comparable period last year. Agricultural exports for the same period were down 11 per cent. Reflecting the gloomy economic situation abroad, U.S. exports to other areas of the world have declined, except to the OPEC countries, where exports for the first five months of 1982 were 9.1 per cent above the same period one year ago. But exports to Japan, Canada, the European Community (EEC) and the non-oil developing countries (non-OPEC LDCs) were all down sharply.

. . . Will Take Up The Slack

Against the backdrop of plummeting exports, the dollar has appreciated strongly. Since the beginning of 1981, it has risen over 18 per cent on a trade-weighted basis. The structure of U.S. exports is

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/30/82)	138,929	+ 3,478	+17,598
New York City (6/30/82)	35,396	+ 2,269	+ 5,569
Commercial Paper (6/30/82)	179,845	– [illegible]33	+32,946

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (6/30/82)	212,150	+ 3,645	+29,092
New York City (6/30/82)	59,868	+ 1,007	+ 6,312

	Total Loans Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (6/30/82)	490,785	+ 6,073	+40,201
New York City (6/30/82)	114,963	+ 2,066	+ 5,247

Financial Markets

	Friday 7/16/82	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.52%	– .23	– 3.57
180-Day Bills†	12.42	– .18	– 3.11
Longest Bills†	12.89	– .11	– 2.40
Recent Issues:			
$14^3/_8$s 6/30/84	13.18	– .22	
$14^7/_8$s 6/30/86	13.78	– .02	
$13^3/_4$s 5/15/92	13.13	– .59	
14s 11/15/11	13.31	– .05	
Municipals:			
Bond Buyer–20 Bond Index* (7/15/82)	12.36%	– .11	+ 1.27
Blue List Total ($ Million)	$ 809	– $ 15	– $142
30-Day Visible Supply ($ Million)	$2,535	+ $825	+ $870
Total	$3,344	+ $810	+ $728
Corporates:			
Moody's Aa Composite (7/15/82)	15.29%	– .15	+ .60
30-Day Visible Supply ($ Million) ‡	$1,728	+ $303	NA
Stocks:			
Dow-Jones Averages:			
Industrials	828.67	+ 14.55	– 130.23
Transportation	322.69	+ 2.10	– 88.71
Utilities	107.37	+ .55	– 1.02
65 Stocks	320.74	+ 4.04	– 52.99
Standard and Poor's 500 Stocks	111.07	+ 2.24	– 19.69
N.Y.S.E. Composite Index	63.67	+ 1.13	– 12.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	63,826	+10,910	+ 20,972

* 46% Taxable equivalent 22.89%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/16/82	Week Ago
Overnight	12.75%	13.00%
1 month	14.13	14.88
3 month	14.81	15.31
6 month	15.13	15.56
1 year	15.13	15.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.65%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/16/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02105	47.51
Canada	.7904	1.2652
Denmark	.1159	8.6255
France	.1441	6.9400
Germany	.4009	2.4945
Italy	.0007176	1393.50
Japan	.003905	256.08
Mexico	.02061	48.53
Netherlands	.3638	2.7490
Switzerland	.4709	2.1238
U.K.	1.7168	.5825

sensitive to an appreciating dollar, particularly in a period of low growth abroad. Industrial supplies and capital goods have suffered particularly. In May of this year, exports of capital goods were running 6.9 per cent below May, 1981 levels and exports of industrial supplies were down 7.3 per cent.

The prospects for the rest of 1982 give little cause for cheer. Interest rates in the United States are expected to remain at lofty heights and the present expectation of a small current account surplus both suggest continued strength for the dollar. Further, the likelihood of a shallow recovery in the United States and the lack of clear-cut evidence of economic recovery abroad does not augur well for the growth of world trade in 1982. Recent forecasts for real growth in the industrial countries are for a meager one-half to one per cent this year after 1.2 per cent in 1981. ■

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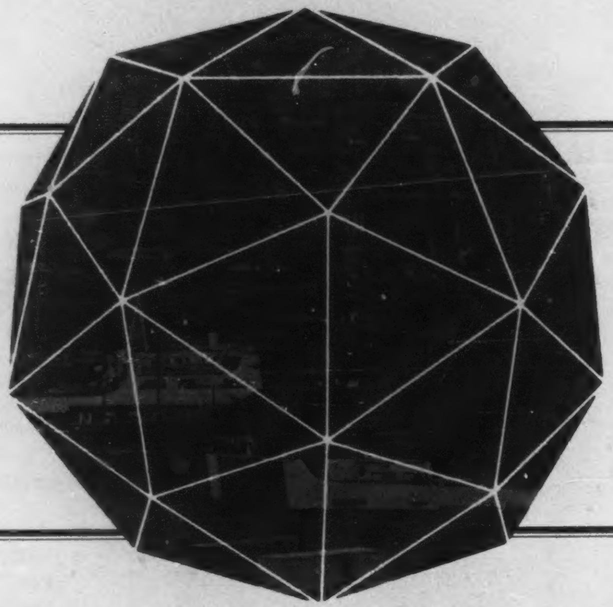

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The Manufacturers
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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 26, 1982 VOLUME XIX, NUMBER 30

Some Interest Rate Relief . . .

Just when expectations were becoming widespread that interest rates would turn upward as economic activity picked up and Treasury borrowings soared to new record heights, they did precisely the opposite. Paced by a full four percentage point drop in the Federal funds rate in less than 25 days, and fueled by a lowering of the Federal Reserve discount rate, short-term interest rates tumbled sharply. Even the banks' prime lending rate, riveted at 16½ per cent since last winter, responded, dropping by one-half of one percentage point. But although these developments may provide some respite to a recession-weary economy, they had better be savored while they last. For building on the horizon are a variety of ominous clouds which may not only preclude future interest rate declines—but may well send them spiking upward again before long.

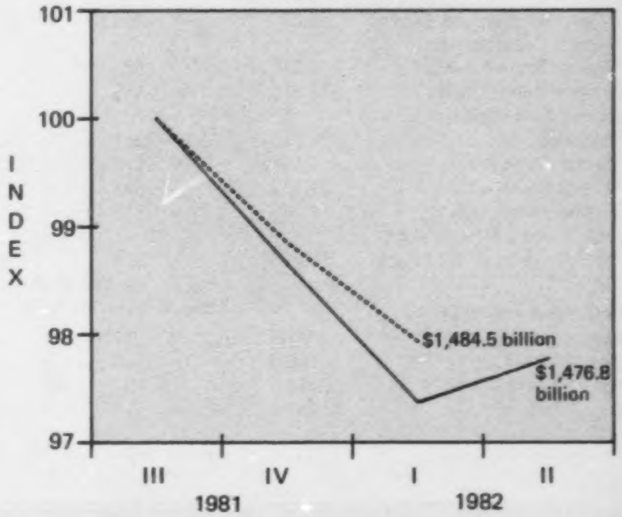
Perhaps the most threatening of these is the continuing clash between "tight" monetary and "loose" fiscal policies. Money supply growth has been sluggish at best in recent months, in spite of the well-publicized bulges which have occurred at the beginning of each quarter. During the 13 weeks ending July 14, for example, M1 declined at a 0.2 per cent seasonally adjusted annual rate while over the past month it has contracted at a more than nine per cent pace. Although there has been essentially no growth in the money supply since the turn of the year, it is just barely within the Fed's target ranges, thus not giving the Fed much leeway to loosen the monetary reins. Currently, M1 is about $750 million below its 5½ per cent upper target boundary and only $3.9 billion higher than the level reached in the first week of January.

For its part, fiscal policy remains highly stimulative, resulting in a huge and growing Federal deficit. And while there has been an apparent resolution of the fiscal 1983 Federal budget impasse, it has done little to assuage market jitters. Notwithstanding Congressional intent to keep the deficit to "only" $104 billion, the red ink total could reach as high as $120 billion in fiscal 1983, well beyond the record deficit expected for the current fiscal year.

. . . For A Recession-Weary Economy

This ensures that Washington's borrowing requirements will soar as well. Net new Treasury cash needs are likely to exceed $100 billion in the second half of this year alone, well above the $60 billion raised during the comparable 1981 period. Already, the borrowing pace is accelerating. In the first three weeks of July, net Treasury borrowings have surpassed $17 billion—$5.4 billion more than the net amount raised in all of the second quarter.

REVISED GNP (LINE) VS. EARLIER ESTIMATE (DOT)
(3RD QUARTER, 1981=100)



The persistence of these contradictory public policies, together with still robust business loan demand, suggests difficulties for the financial markets in general, and for interest rates in particular. If economic recovery does indeed become reality, the collision of Federal and private credit needs could send interest rates higher again later this year. And while a business upturn may slow the growth of short-term borrowings by boosting corporate cash flows, stepped-up household borrowings to finance a consumer-led rebound could take up the slack (notwithstanding the recent improvements in consumer cash flows and balance sheets). Simply put, there is still no way that an insatiable Federal credit appetite and monetary

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restraint are compatible with either stable or declining interest rates—unless, of course, the private sector remains flat on its back.

Statistical Quirks . . .

That may very well turn out to be the case. Although the rise in the second quarter's real Gross National Product was the first quarterly increase since last summer, it does not necessarily mean that a recovery is underway. The Commerce Department last week reported that the nation's output of goods and services increased at a seasonally adjusted annual rate of 1.7 per cent. However, closer examination reveals that, not only did the economy not strengthen, it may have actually weakened.

As it usually does at this time of the year, the government revised its figures going back several years. This time, most of the revisions were downward, especially for the period beginning in autumn, 1981. Whereas the Commerce Department earlier thought that fourth-quarter, 1981's GNP fell by an annual rate of 4.5 per cent compared with the third, it now thinks that the rate of descent was 5.3 per cent. Furthermore, first-quarter 1982's GNP is now shown to be down at a 5.1 per cent pace, compared with a 3.7 per cent clip previously. As a result, the level now estimated for second-quarter 1982's GNP—$1,477 billion—is actually lower than the government's earlier estimate for the first quarter, which was $1,485 billion (see chart).

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/14/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.798	− .243	+ 8.575
Loans to Depository Inst.	.558	− .514	− .739
Float	2.873	+ 1.246	− .420
Total Reserve Bank Credit	153.066	+ .003	+ 5.875
Treasury Deposits with Federal Reserve Banks	3.349	− .021	− .058
Currency Outside Banks	132.645	+ .656	+ 7.844
Member Bank Reserves:			
Required	38.957	− .257	− 1.551
Excess (Deficiency)	.165	− .375	+ .013
Total Reserves Held	39.122	− .632	− 1.538
Net Borrowed Reserves	.162	− .119	− .736
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.725	+ .529	+ .463

Monetary Aggregates†			% Change Since Three Months Ago*	% Change Since Year Ago
M1		451.7	− 0.2‡	+ 4.8‡
M2	**(June '82)**	1,906.9	+ 8.9	+ 9.5
M3	**(June '82)**	2,294.7	+ 10.5	+ 10.2
L	**(February '82)**	2,687.2	+ 8.8	+ 11.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 7/23/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.20%	10.90%	10.95%
*** Federal Agencies**	11.40	11.50	13.40
*** Project Notes—Taxfree (46% Taxable Equivalent)**	12.87	13.06	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	12.00	12.60	13.38

‡Finance Company Paper—Prime	
5- 14 days	10.00%
15- 29 days	10.50
30- 59 days	10.38
60- 89 days	10.75
90-179 days	11.38
180-239 days	11.13
240-270 days	12.00

‡* Bankers' Acceptances	
Aug.	10.80%
Sep.	11.10
Oct.	11.40
Nov.	11.50
Dec.	12.00
Jan.	11.80

‡Industrial Paper—Prime	
30- 89 days	10.88%
90-120 days	11.50

†Federal Funds Effective Rate 10.65%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82n	$ 3,047	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82n	$ 1,477	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82n	1.7	− 5.1	− 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82n	12.0%	12.0%	8.4%
Change in Producer Prices*	Jun '82	12.0%	0.0%	7.2%
Civilian Employment (Thousands of Persons)†	Jun '82	99,764	100,117	100,430
Unemployment as % of Civilian Labor Force†	Jun '82	9.5%	9.5%	7.4%
Personal Income*	Jun '82n	$ 2,561	$ 2,553	$ 2,398
Leading Indicators Composite Index (1967=100)†	May '82	127.7	127.3	136.0
Industrial Production Index (1967=100) †	Jun '82	138.4	139.4	152.9
Net Change in Consumer Installment Credit†	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	May '82	−$ 3.29	−$ 0.32	−$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jun '82n	911	1,075	1,046
New Construction Expenditures*	May '82	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories†	May '82	$ 505.7	$ 510.1	$ 490.3
Total Business Sales†	May '82	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

What is more, this "official" estimate for the level of economic activity in the second quarter is also below the level implied by the Commerce Department's "unofficial" estimate of mid-June. Although the quarter-to-quarter percentage increase is larger, the "unofficial" number was based on the higher estimates for the first quarter.

As if to underline this, the government one day later released its monthly report on durable goods orders for June. Not only was there a seasonally adjusted decline of 1.6 per cent for factory hardgoods, but there was an even heftier drop of 5½ per cent in new orders for nondefense capital goods—an important barometer of future plant and equipment spending.

In a similar vein, the Commerce Department revised downward its number for May. Earlier, it had estimated a 1½ per cent increase in May's new orders for durable goods; now it says there was a one per cent decline.

. . . Do Not Make A Recovery

Another factor contributing to last quarter's "rise" in the GNP was the adjustment for inventories. The way the GNP is put together, a step-up in the rate of stockpiling adds to it, while destocking subtracts from it. In the first quarter, real inventories were pared down by $15.4 billion at an annual rate, but in the second they were reduced by only a $6.9 billion rate. This moderation in selling from inven-

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/7/82)	138,201	– 721	+17,249
New York City (7/7/82)	35,039	– 357	+ 5,644
Commercial Paper (7/7/82)	181,597	+ 1,742	+32,734

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/7/82)	212,198	– 230	+30,125
New York City (7/7/82)	60,371	+ 503	+ 6,827

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/7/82)	490,079	– 784	+45,875
New York City (7/7/82)	115,132	+ 169	+ 8,718

Financial Markets

	Friday 7/23/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.72%	– .80	– 4.88
180-Day Bills†	11.80	– .62	– 4.20
Longest Bills†	12.40	– .49	– 3.30
Recent Issues:			
13 1/8s 7/31/84 (When Issued)	13.12	NA	
14 7/8s 6/30/86	13.54	– .24	
13 3/4s 5/15/92	13.64	+ .51	
14s 11/15/11	13.29	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (7/22/82)	12.01%	– .35	+ .67
Blue List Total ($ Million)	$ 782	– $ 27	– $130
30-Day Visible Supply ($ Million)	$2,607	+ $ 72	+ $932
Total	$3,389	+ $ 45	+ $802
Corporates:			
Moody's Aa Composite (7/22/82)	14.96%	– .33	– .16
30-Day Visible Supply ($ Million) ‡	$1,135	– $593	NA
Stocks:			
Dow-Jones Averages:			
Industrials	830.57	+ 1.90	– 106.17
Transportation	318.35	– 4.34	– 83.82
Utilities	106.45	– .92	– 1.12
65 Stocks	319.52	– 1.22	– 46.53
Standard and Poor's 500 Stocks	111.17	+ .10	– 17.27
N.Y.S.E. Composite Index	63.81	+ .14	– 10.79
N.Y.S.E. Avg. Daily Vol. for Week (000's)	56,436	– 7,390	+ 13,242

* 46% Taxable equivalent 22.24%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/23/82	Week Ago
Overnight	10.88%	12.75%
1 month	11.81	14.13
3 month	12.63	14.81
6 month	13.63	15.13
1 year	13.88	15.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.40%	14.65%
Long Term (7 to 15 yrs.)	14.55	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/23/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02185	45.77
Canada	.7973	1.2543
Denmark	.1195	8.3655
France	.1498	6.6775
Germany	.4168	2.3995
Italy	.0007405	1350.40
Japan	.004009	249.42
Mexico	.02053	48.72
Netherlands	.3771	2.6520
Switzerland	.4942	2.0235
U.K.	1.7625	.5674

tories translated into an $8.5 billion "addition" to the GNP between the first and second quarters.

However, a slower reduction in inventories is not necessarily a sign of a stronger economy. This is because the most important indicator of economic activity—real final sales—declined in the second quarter by 0.6 per cent, paced by a 6.3 per cent annual rate drop in business fixed investment. The strong dollar and weak economies abroad contributed to a $1.3 billion decline in real net exports, compared with the January-March period, as the increase in exports was outpaced by even faster rising imports. Purchases of goods and services by the Federal and state and local governments fell by an annual rate of 6.3 per cent, quarter-over-quarter. The only component of real final sales which posted an increase was the consumer sector. Real personal consumption expenditures rose by 3.1 per cent at an annual rate, as the steep downturn in June did not offset stronger sales in April and May.

Nonresidential fixed investment declined for the second quarter in a row, dropping at a seasonally adjusted annual rate of 8.5 per cent, quarter-over-quarter. Not unexpectedly, this contraction in business expenditures occurred entirely in purchases of durable equipment. There has been little to encourage spending despite incentives provided by the Administration since early last year. Companies have been struggling with a downturn in sales (real final sales are no higher now than they were in the fourth quarter of 1980), excess inventories and the high cost of borrowing. These factors, coupled with a ten per cent cut in industrial production since last July, which has idled more than 30 per cent of capacity in the nation's factories, have all but eliminated the need for expansion.

The prospects for capital spending continue to be bleak. For example, the automobile industry, which intended to make sizable investments over the next several years, has been operating at less than 50 per cent of capacity. What is more, no sooner did the automakers pare inventories to healthier levels in May, than new domestic car sales slumped to 3.8 million units at a seasonally adjusted annual rate during the last ten-day selling period in June. This paltry selling pace has resulted in rising inventories once again, from a 52-day supply on June 1, to 78½-day's on July 1 at the then-current selling rate.

The sharp cutback in automobile production had severe repercussions on the metal producing industries, especially steel. Shipments to the automotive industry (including trucks) used to account for almost 25 per cent of all purchases; they now represent less than 18 per cent. In May, shipments of raw steel were down 30 per cent from a year earlier while total domestic production is now running at half the pace of a year ago. What is more, employment of hourly workers declined to 210,000—the lowest level since the Great Depression.

The problems of the steel producers have intensified this year because of the turnaround in the energy industry. Energy companies had earlier increased their demand for steel tubular products used in drilling for new oil. However, as prices of crude petroleum weakened, searching and drilling for new oil has become less attractive. This has resulted in plummeting drilling activity. As a consequence, investment in the petroleum industry, which had jumped by almost 50 per cent during the two years ending in 1981, is now falling rapidly.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 2, 1982
VOLUME XIX, NUMBER 31

Interest Rate Relief . . .

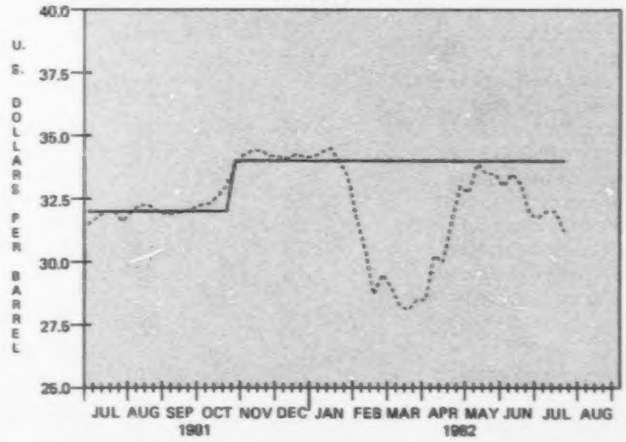
The midsummer break in short-term interest rates may provide the economy with about as much relief as an afternoon shower on a hot summer day—welcome, but all too brief. Last week, the relief ended with word from Washington that not only did the Federal budget picture worsen in June, but there was a sharp upward revision of prospective Treasury credit needs, as well. These back-to-back announcements suggest that the likely course of future Federal budget developments will involve an unending hemorrhage of red ink and an ever-growing volume of Treasury borrowings to plug the gap.

It is true that, according to the Treasury Department, the Federal budget posted a $6.72 billion surplus in June. However, June is a traditionally strong month in which quarterly individual and corporate income taxes are collected. The problem is—the black ink total was less than one-half the size of the $15.36 billion surplus posted during the same month of 1981. With tax receipts depressed due to sluggish personal incomes growth and the evaporation of a good-sized chunk of corporate profits, it is hardly surprising that receipts fell almost six per cent in June, year-over-year. Expenditures, on the other hand, continued to surge ahead because of stepped-up defense and income security outlays. These trends highlighted again the progressive deterioration of the Federal government's financial position by bringing the red ink total for the first nine months of fiscal 1982 to just a shade under $75 billion. This is almost $26 billion higher than the deficit posted during the same period of fiscal 1981. If the past is any guide, a continuation of these trends over the remainder of the fiscal year would result in a full year deficit of almost $90 billion.

. . . May Be Short-Lived

But the past is hardly likely to offer any guidance this year—accurate or otherwise. For at the same time that the disappointing June budget results were being announced, the Treasury also substantially revised upward its estimate of probable third quarter credit needs—and, in so doing, revealed the likely size of the deficit the government will have to finance. Whereas the Treasury had earlier expected to raise between $32 and $37 billion in net new cash during the July-September period, it now plans to raise at least $50.5 billion. This is not far from the total amount of net new cash raised in the second half of 1981—and it is a staggering four and one-half times the net amount raised in the second quarter of this year!

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE) VS. SPOT PRICE (DOT)



Since the largest proportion of these borrowings will be used to finance Washington's "on-budget" deficit, the upward revision of borrowing needs is not good news. Put simply, after allowing for the financing needs associated with boosting the Treasury's cash balance to $20 billion by quarter's end, the likely level of "off-budget" spending, and net redemptions of such nonmarketable securities as savings bonds, the Treasury's debt managers are apparently expecting a quarterly deficit somewhere in the neighborhood of $34 to $36 billion. If so, adding this to the $75 billion red ink total already on the books brings the deficit for fiscal year 1982 to about $110 billion—$50 billion more than last fiscal year, and a formidable roadblock on the path to a healthy private economy.

Easing Oil Prices . . .

The rapid rise in the consumer price index (CPI) in the last two months—one per cent per month in May and June—owes much to the sharp rise in gasoline

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prices. After falling by almost 15 per cent from March, 1981 through April, 1982 the price of gasoline in May rose by almost one per cent. In June, prices jumped an additional 5.4 per cent as the rising cost of crude petroleum imports, which began in early April (Financial Digest—May 17, 1982), reached the retail level.

The CPI is particularly sensitive to changes in energy prices. For example, if all other components of the CPI were to hold steady, an eight per cent increase in the retail price of gasoline would result in a one-half per cent rise in the CPI. Thus, gyrations in oil prices, which lead to gasoline price fluctuations, can have a profound effect on inflation rates—adding to their volatility.

In the last several weeks, however, conditions in the petroleum market appeared to be easing again. The price of imported oil has declined. The spot price for Saudi Arabian light crude oil, which is the "marker" oil for OPEC prices, slipped from a recent high of $33.90 per barrel in mid-May to below $32 per barrel in mid-July (see chart). OPEC production, which hit an estimated low of 15.9 million barrels per day (bpd) in April, is now back up to approximately 18.5 million bpd—the principal cause of easing prices.

Imports of crude petroleum and petroleum products have risen by about 25 per cent since mid-May. From a four-week average of 3.6 million bpd (period ending May 21), oil imports increased to 4.5 million

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 7/21/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	143.467	+ 2.669	+10.183
Loans to Depository Inst.	.595	+ .037	− 1.135
Float	2.055	− .887	− 1.179
Total Reserve Bank Credit	155.522	+ 2.387	+ 6.591
Treasury Deposits with Federal Reserve Banks	3.181	− .168	+ .075
Currency Outside Banks	133.495	+ .850	+ 7.828
Member Bank Reserves:			
Required	40.359	+ 1.402	− .944
Excess (Deficiency)	.350	+ .116	− .047
Total Reserves Held	40.709	+ 1.518	− .991
Net Borrowed Reserves	.006	− .087	− 1.083
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.479	− .246	+ 1.568

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	450.8	− 1.9‡	+ 4.8‡
M2 (June '82)	1,907.4	+ 9.1	+ 9.6
M3 (June '82)	2,295.0	+ 10.6	+ 10.2
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 7/30/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.10%	11.00%	11.20%
* Federal Agencies	10.75	11.65	12.80
* Project Notes—Taxfree (46% Taxable Equivalent)	12.78	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.90	11.85	13.38

‡Finance Company Paper—Prime	
5- 14 days	10.50%
15- 29 days	10.75
30- 59 days	11.25
60- 89 days	11.38
90-179 days	11.63
180-239 days	11.63
240-270 days	11.63

‡* Bankers' Acceptances	
Aug.	11.25%
Sep.	11.35
Oct.	11.50
Nov.	11.70
Dec.	12.00
Jan.	12.10

‡Industrial Paper—Prime	
30- 89 days	11.63%
90-120 days	11.90

†Federal Funds Effective Rate	11.38%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,047	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,477	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.7	− 5.1	− 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82	12.0%	12.0%	8.4%
Change in Producer Prices*	Jun '82	12.0%	0.0%	7.2%
Civilian Employment (Thousands of Persons) †	Jun '82	99,764	100,117	100,430
Unemployment as % of Civilian Labor Force †	Jun '82	9.5%	9.5%	7.4%
Personal Income*	Jun '82	$ 2,561	$ 2,553	$ 2,398
Leading Indicators Composite Index (1967=100) †	Jun '82n	127.9	127.9	135.2
Industrial Production Index (1967=100) †	Jun '82	138.4	139.4	152.9
Net Change in Consumer Installment Credit †	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	Jun '82n	−$ 3.44	−$ 3.29	−$ 3.28
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jun '82	911	1,075	1,046
New Construction Expenditures*	May '82	$ 229.2	$ 226.2	$ 240.9
Total Business Inventories †	May '82	$ 505.7	$ 510.1	$ 490.3
Total Business Sales †	May '82	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

bpd (period ending July 16), reflecting falling prices and efforts to rebuild inventories. In spite of this rise in imports, crude oil inventories fell by about five per cent between the week ending May 21 and the week ending July 16. But in the same period gasoline stocks rose by six per cent as the oil companies prepared for the greater use that accompanies the summer vacation season. Further, although gasoline consumption for the four-week period ending July 16 was about six per cent below consumption for the four weeks ending May 21, a gradually rising consumption pattern has been evident since early June. Recently reported increased sales of larger, less fuel-efficient automobiles by U.S. manufacturers may also add to gas consumption.

. . . May Help Deflate Inflation

So far, however, the decline in oil prices has not yet resulted in a significant decrease in the price of gasoline at the pump. There is a lag between oil price declines and the time when they are reflected at the retail level. This time, this lag may be longer than usual due to the substantial existing inventories of crude oil and gasoline which the oil companies purchased when world prices were higher. Thus, the overall petroleum market picture is one of rising consumption, ample availability of petroleum products and the prospect of easing prices.

It is evident that the OPEC production quota agreement to hold production down to 17.5 million bpd is not being observed. Several OPEC countries

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/14/82)	140,087	+ 1,885	+17,959
New York City (7/14/82)	34,846	− 193	+ 5,206
Commercial Paper (7/14/82)	181,285	− 296	+30,155

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/14/82)	212,092	− 279	+30,841
New York City (7/14/82)	60,779	+ 408	+ 7,742

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/14/82)	489,071	− 933	+45,317
New York City (7/14/82)	115,301	+ 169	+ 8,893

Financial Markets

	Friday 7/30/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.15%	− .57	− 5.30
180-Day Bills†	11.47	− .33	− 4.63
Longest Bills†	12.16	− .24	− 3.79
Recent Issues:			
$13\frac{1}{8}$s 7/31/84 (When Issued)	12.80	− .32	
$14\frac{7}{8}$s 6/30/86	13.40	− .14	
$13\frac{3}{4}$s 5/15/92	13.46	− .18	
14s 11/15/11	13.30	+ .01	
Municipals:			
Bond Buyer–20 Bond Index* (7/29/82)	11.97%	− .04	+ .53
Blue List Total ($ Million)	$ 918	+ $136	+ $ 49
30-Day Visible Supply ($ Million)	$2,515	− $ 92	+ $917
Total	$3,433	+ $ 44	+ $966
Corporates:			
Moody's Aa Composite (7/29/82)	15.06%	+ .10	+ .03
30-Day Visible Supply ($ Million) ‡	$1,260	+ $125	NA
Stocks:			
Dow-Jones Averages:			
Industrials	808.60	− 21.97	− 143.74
Transportation	308.75	− 9.60	− 97.93
Utilities	103.22	− 3.23	− 6.37
65 Stocks	310.56	− 8.96	− 61.07
Standard and Poor's 500 Stocks	107.09	− 4.08	− 23.83
N.Y.S.E. Composite Index	61.51	− 2.30	− 14.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,544	− 9,892	+ 4,386

* 46% Taxable equivalent 22.17%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

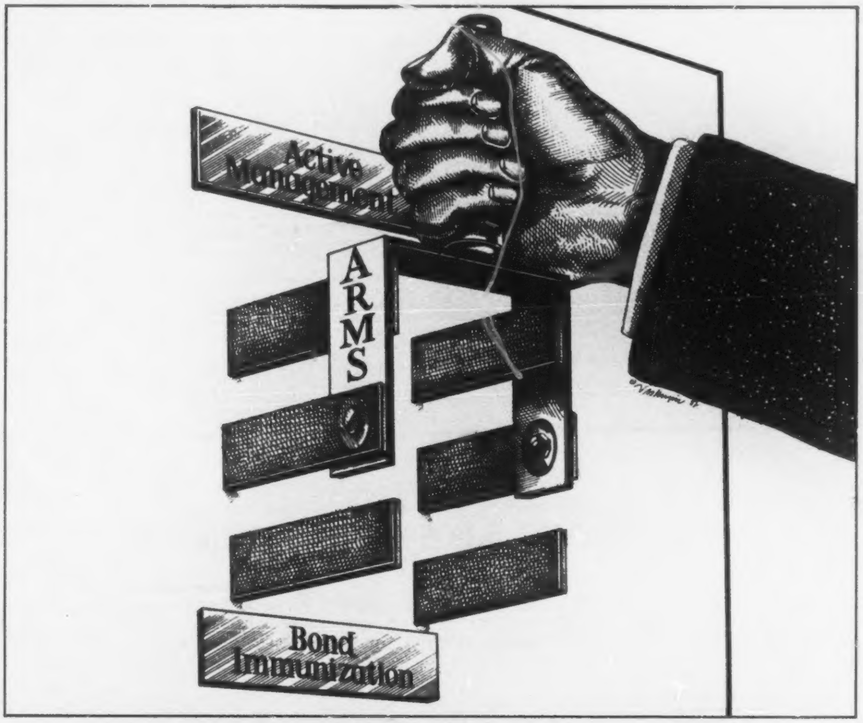
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/30/82	Week Ago
Overnight	11.38%	10.88%
1 month	12.19	11.81
3 month	13.06	12.63
6 month	13.94	13.63
1 year	14.00	13.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.40%	14.40%
Long Term (7 to 15 yrs.)	14.55	14.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/30/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02136	46.82
Canada	.7950	1.2578
Denmark	.1173	8.5275
France	.1467	6.8175
Germany	.4074	2.4545
Italy	.0007274	1374.80
Japan	.003906	256.03
Mexico	.02044	48.93
Netherlands	.3686	2.7130
Switzerland	.4779	2.0923
U.K.	1.7395	.5749

have found the recent decline in their revenues unacceptable in terms of their needs and the expectations of their people. In the face of continuing prospects for low economic growth worldwide it is probable that global petroleum markets will continue to face periodic oil "gluts" which will temporarily force prices down. However, a balance between the supply and demand for petroleum remains elusive.



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B5350-2 8/11/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 9, 1982 VOLUME XIX, NUMBER 32

Productivity Gains Are . . .

Hiding among the many gloomy statistics released these days by Washington is one very welcome bit of good news. Productivity in the private business sector increased at a seasonally adjusted annual rate of 2.9 per cent during the April–June period compared with the previous quarter—the largest gain in over a year. This productivity improvement will have a favorable impact on some of the other economic indicators, including the rate of inflation and consumers' purchasing power. Also, by easing cost pressures on some companies' balance sheets, it may have already helped arrest the decline in corporate profits.

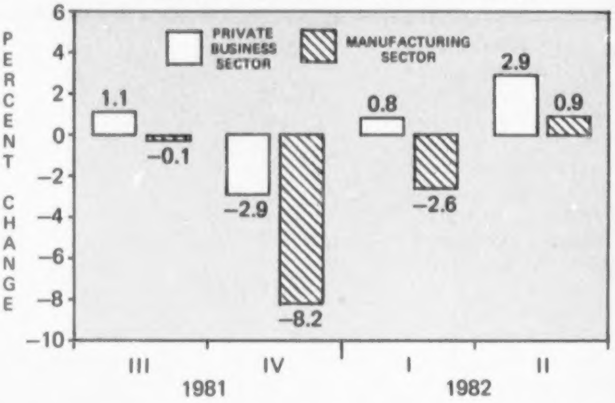
The productivity increase was aided by the first quarterly gain in output for the private economy since the third quarter of 1981. At the same time, the number of hours worked declined. By contrast in the first quarter, productivity rose 0.8 per cent while both measures declined. The second quarter turnaround in productivity was particularly noticeable in the manufacturing sector (see chart), where recent declines had been especially steep. Output per hour rose at a 0.9 per cent annual rate in the second quarter— compared with declines of 2.6 per cent in the first quarter of 1982 and 8.2 per cent in the final quarter of last year. Unfortunately, this turnaround did not stem from an expansion of factory output, but rather, from drastic reductions in payrolls which outpaced the five per cent drop in production.

. . . The Key To Less Inflation . . .

The improvement in productivity will help reverse the 15-year rise in the underlying or "core" rate of inflation (the annual rise in labor and capital costs). Core inflation had already slowed to an 8.9 per cent rate last year from a 9.3 per cent pace in 1980 as business tax cuts slowed the rise in capital costs. The second quarter's rise in productivity sets the stage for further reductions in the inflation rate, thanks to the easing of labor cost pressures that accompanied it.

Even now, there has been a dramatic deceleration in wage and salary increases. Hourly compensation (including benefits) rose at an annual rate of 7.1 per cent in the second quarter of 1982—the smallest rise in four years. One of the major contributors to this was the reduction in wage gains received by organized labor.

PRODUCTIVITY
(QUARTERLY CHANGES AT ANNUAL RATES)



This development began close to two years ago, as the serious slump started to affect many older, "smokestack" industries. In an effort to preserve jobs, labor began to accept lower pay raises in some industries, while in others, they agreed to wage freezes—and even pay cuts. By the beginning of 1982, this trend spread to virtually all industries, including food processing, textiles and services. As a result, major collective bargaining agreements negotiated since January 1 provided only slightly more than cost-of-living adjustments.

Averaging only three per cent in the first contract year, these wage increases compare with an average of 7.7 per cent when the same parties negotiated previously—two to three years ago. What is more, nearly three-fifths of the 1.9 million workers covered by these settlements received no specified wage increases while some will see their pay decrease during the life of 1982's agreements. More than 90 per cent of those workers who did not get an increase were in the automotive and trucking industries. The remaining workers were in the rubber, farm machinery, steel and food processing industries. However, nearly all are scheduled to

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

receive some cost-of-living increases. When this slowdown in wage raises is combined with the expansion in productivity, the cost of labor per unit of output rose at a seasonally adjusted 4.1 per cent annual rate in the second quarter, the slowest since the third quarter of 1977.

. . . And More Profits . . .

The rise in productivity and the slowdown in the growth of unit labor costs may have helped stop the decline in profits of many companies. By easing labor cost pressures, corporate earnings regained some ground in the second quarter from the deeply depressed first quarter level. Estimates by this Bank indicate that total pretax profits inched up by five per cent, quarter-over-quarter, increasing by some $8 billion at an annual rate.

Although this nowhere near offsets the plunge of $62 billion at annual rates posted in the previous two quarters, it is nevertheless a welcome turnaround considering the continued weakness in final sales, the high cost of borrowing and the utilization of only slightly more than two-thirds of factory capacity. However, despite this upturn, the level of profits is some 20 per cent lower than it was during the comparable period a year ago and is no higher than it was five years ago. When the impact of inflation is excluded, "real" operating profits (excluding inventories and depreciation) have been squeezed back to the levels of the early sixties.

As the economy recovers, wage gains may accelerate

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/28/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.220	– 2.247	+ 9.533
Loans to Depository Inst.	.548	– .047	– 1.430
Float	1.708	– .303	– 1.386
Total Reserve Bank Credit	152.533	– 2.945	+ 5.360
Treasury Deposits with Federal Reserve Banks	3.358	+ .177	+ .295
Currency Outside Banks	130.879	– 2.616	+ 7.508
Member Bank Reserves:			
Required	40.056	– .303	– .828
Excess (Deficiency)	.271	– .035	– .130
Total Reserves Held	40.327	– .338	– .958
Net Borrowed Reserves	.089	+ .039	– 1.230
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.851	– .628	+ .735

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	451.4	– 1.1‡	+ 5.1‡
M2 (June '82)	1,907.6	+ 9.1	+ 9.6
M3 (June '82)	2,295.2	+ 10.6	+ 10.2
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 8/6/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.30%	10.35%	11.00%
*** Federal Agencies**	11.95	12.75	13.59
*** Project Notes—Taxfree (46% Taxable Equivalent)**	11.94	12.50	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	11.55	12.40	13.40

‡Finance Company Paper—Prime	
5- 14 days	10.63%
15- 29 days	10.38
30- 59 days	10.63
60- 89 days	10.63
90-179 days	10.63
180-239 days	10.75
240-270 days	11.63

‡* Bankers' Acceptances	
Sep.	10.75%
Oct.	11.00
Nov.	11.15
Dec.	11.35
Jan.	11.60
Feb.	11.60

‡ Industrial Paper—Prime	
30- 89 days	10.63%
90-120 days	10.75

†Federal Funds Effective Rate 10.75%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,047	$ 2,896	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,477	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.7	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82	12.0%	12.0%	8.4%
Change in Producer Prices*	Jun '82	12.0%	0.0%	7.2%
Civilian Employment (Thousands of Persons) †	Jul '82n	99,732	99,764	100,864
Unemployment as % of Civilian Labor Force†	Jul '82n	9.8%	9.5%	7.2%
Personal Income*	Jun '82	$ 2,561	$ 2,553	$ 2,398
Leading Indicators Composite Index (1967=100) †	Jun '82	127.9	127.9	135.2
Industrial Production Index (1967=100) †	Jun '82	138.4	139.4	152.9
Net Change in Consumer Installment Credit†	May '82	$ 1.40	$ 1.18	$ 1.57
U.S. Merchandise Trade Balance †	Jun '82	–$ 3.44	–$ 3.29	–$ 3.28
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jun '82	911	1,075	1,046
New Construction Expenditures*	Jun '82n	$ 230.7	$ 227.7	$ 237.5
Total Business Inventories†	May '82	$ 505.7	$ 510.1	$ 490.3
Total Business Sales†	May '82	$ 349.0	$ 340.5	$ 349.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

again. However, at that time they should be offset—at least partially—by more gains in productivity. Traditionally, productivity rises quickly at the early stages of recovery as companies step up output without boosting labor hours worked. Only after assembly lines are restored to full speed do employers increase the average workweek, then expand payrolls. This is clear from July's labor force data which showed a 90,000 drop in factory payrolls and a rise in the unemployment rate to 9.8 per cent.

. . . In Many Industries

One industry which has benefitted from substantial cost cutting, especially reductions in wages and salaries, has been the automobile industry. Earnings of each of the Big Three auto manufacturers were in the black in the second quarter in spite of one of the lowest selling rates in recent memory. This was a significant improvement over the $263 million loss they posted in the first quarter and the $1.2 billion loss they sustained for all of 1981. However, the problems of the industry are far from over. By the end of last quarter, sales had skidded to their lowest levels since the early 1950s and inventories were up once again.

However, more than a slowdown in the rise of wage costs is needed to alleviate the problems of the housing industry. Not that the rise in wage costs has slowed all that much. Although the bargaining

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/21/82)	142,789	+ 2,684	+19,770
New York City (7/21/82)	35,329	+ 483	+ 4,843
Commercial Paper (7/21/82)	182,877	+ 1,592	+30,011

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/21/82)	210,426	– 1,666	+29,412
New York City (7/21/82)	59,467	– 1,312	+ 7,246

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/21/82)	488,049	– 993	+45,998
New York City (7/21/82)	113,491	– 1,810	+ 9,143

Financial Markets

	Friday 8/6/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.72%	+ .57	– 5.30
180-Day Bills†	11.93	+ .46	– 4.65
Longest Bills†	11.51	– .65	– 4.90
Recent Issues:			
$13^{1}/_{8}$s 7/31/84	13.24	+ .44	
$14^{7}/_{8}$s 6/30/86	13.85	+ .45	
$13^{3}/_{4}$s 5/15/92	13.93	+ .47	
14s 11/15/11	13.46	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (8/5/82)	11.87%	– .10	+ .34
Blue List Total ($ Million)	$ 913	– $ 5	+ $109
30-Day Visible Supply ($ Million)	$2,290	– $225	+ $ 73
Total	$3,203	– $230	+ $182
Corporates:			
Moody's Aa Composite (8/5/82)	14.89%	– .17	– .43
30-Day Visible Supply ($ Million) ‡	$1,400	+ $140	NA
Stocks:			
Dow-Jones Averages:			
Industrials	784.34	– 24.26	– 158.20
Transportation	297.06	– 11.69	– 108.49
Utilities	104.51	+ 1.29	– 5.49
65 Stocks	302.55	– 8.01	– 66.95
Standard and Poor's 500 Stocks	103.71	– 3.38	– 28.04
N.Y.S.E. Composite Index	59.69	– 1.82	– 16.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,254	+ 7,710	+ 9,430

* 46% Taxable equivalent 21.98%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/6/82	Week Ago
Overnight	10.63%	11.38%
1 month	11.63	12.19
3 month	12.63	13.06
6 month	13.56	13.94
1 year	13.81	14.00

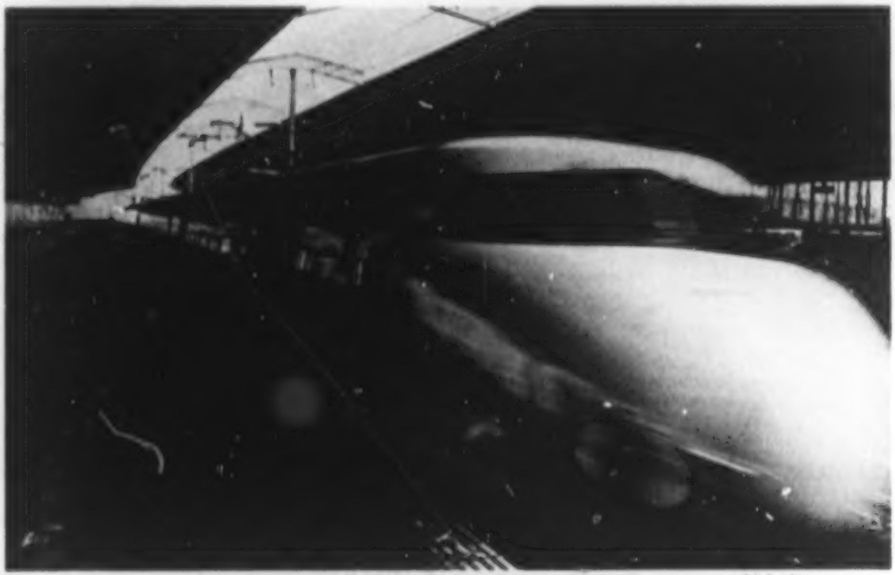
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.15%	14.40%
Long Term (7 to 15 yrs.)	14.35	14.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/6/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02092	47.79
Canada	.7992	1.2512
Denmark	.1152	8.6833
France	.1435	6.9700
Germany	.3994	2.5040
Italy	.0007145	1399.60
Japan	.003833	260.90
Mexico	.02035	49.15
Netherlands	.3625	2.7585
Switzerland	.4681	2.1365
U.K.	1.7095	.5853

settlements in the construction industry reached during the first six months of the year were the smallest for the industry since 1978, construction workers received the biggest wage increases of any of the major sectors monitored by the Bureau of Labor Statistics. This occurred despite an almost 20 per cent unemployment rate in the industry. The average wage increase for the first year of contract was 6.6 per cent—more than twice the average for all workers.

The combination of high interest rates and sharply rising prices of new homes is largely responsible for the decline in sales of new and existing homes. Mortgage interest rates continue to hover around 17 per cent, and the median price of a new single-family home reached $72,600 in June, from $68,800 a year ago. As a result of the skyrocketing monthly mortgage payments, the characteristics of the typical would-be homebuyers have changed significantly. The median income of homebuyers rose from $28,110 in 1979 to $39,196 in 1981 (latest available). More first-time buyers were forced to wait for better market conditions while it was mainly previous homeowners who were able to buy new or existing homes. What is more, while first-time buyers made up 36 per cent of the market in 1977, in 1981 they accounted for only 13.5 per cent. The median age of homebuyers also reflected difficult housing market conditions, rising from 27 years in 1979 to 28 years in 1981. ■



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 16, 1982

VOLUME XIX, NUMBER 33

Like Pinocchio's Nose . . .

Of all the dismal economic news emerging during the past year, some of the worst has certainly originated in Washington. Scarcely a week has gone by in which estimates of the likely size of the Federal budget deficit in fiscal year 1982 and beyond were not revised upward substantially, sending tremors through the financial markets and keeping interest rates painfully high. And while it is hardly surprising that the budget outlook has deteriorated—what with the economy mired in recession, interest rates still riveted at lofty heights and deep, across-the-board cuts in personal income tax rates limiting revenue growth— what is astonishing is the rapidity with which Federal finances have worsened. In the space of just 12 months, deficit estimates have ballooned nonstop, prompting an embarrassing reversal of Administration tax policy, uncertainty in the financial markets and confusion among economists and the general public alike.

FEDERAL BUDGET DEFICIT PROJECTIONS
($ billions; fiscal years)

Date of Projection		Office of Management and Budget			Congressional Budget Office		
		1982	1983	1984	1982	1983	1984
Jul	1981	– 42.5	– 22.9	+ 0.5	– 29.6	+ 17.7	+ 76.3
Sep	1981	– 43.1	– 22.9	0.0	– 65.0	– 55.0	– 50.0
Feb	1982	– 98.6	– 91.5	– 82.9	– 109.0	– 157.0	– 188.0
Apr	1982	– 100.5	– 101.9	– 93.8	– 119.3	– 182.0	– 216.0
Jun	1982	–	–	–	– 113.8	– 116.4	– 104.6
Jul	1982	– 108.9	– 115.0	– 92.6	– 111.5	– 146.0	– 152.5

As shown in the table above, the Administration over the past year has frequently revised estimates of the budget deficit for fiscal 1982 and beyond, each time adding billions of dollars to the likely red ink total. After boosting the projected deficit for fiscal 1982 by $66½ billion (the *total* deficit in fiscal 1976 under President Ford), the government raised its estimates for fiscal 1983 from a deficit of $22.9 billion projected in July, 1981, to the $115 billion anticipated currently—a fivefold increase in only one year! What is more, estimates of total Federal and Federal-related borrowing needs, which include off-budget spending and the credit requirements of such Federally-sponsored agencies as the Federal Home Loan Banks, have also skyrocketed. For fiscal 1984, not only the size, but even the direction of the budget outcome has changed; where once a budget surplus was projected, there exists today a red ink total of at least $93 billion.

Nor have the estimates by the Congressional watchdogs of the budget process been any more accurate. Whereas the Congressional Budget Office one year ago expected that a budget surplus of $17.7 billion would be posted in fiscal 1983, five revisions later this has been transformed into a $146 billion deficit— a total change, so far, of approximately $165 billion. And if that seems large, the change in the outlook for fiscal 1984 is even more startling. Once again in the space of 12 months, initial estimates of a $76 billion surplus have been replaced by deficit projections now in excess of $150 billion (even after assuming passage of the proposed, three-year $98.9 billion tax increase package now making its way through Congress)—a huge $230 billion turnaround.

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. . . The Federal Budget Deficit . . .

This suggests that at least some of the uncertainty plaguing the financial markets stems from not just the size of prospective budget deficits, but also from the multitude of confusing deficit forecasts emanating from Washington—each more dire than its predecessor, and with few convincing explanations. To be sure, the Administration states that much of the increased red ink stems from what was for it an unanticipated recession. Tax receipts soften during recessions due to sluggish personal incomes and corporate profits growth, while government expenditures rise faster as countercyclical outlays for such programs as extended unemployment insurance are stepped up. In this regard, the current recession has been no different from any other.

Despite strenuous efforts to curb the growth of nondefense outlays, income security expenditures (which include Social Security, food stamps and unemployment compensation) ran eight per cent ahead of comparable year-earlier levels during the first nine months of fiscal 1982, or by about $1.5 billion per month. The Administration says that the 2.6 percentage point increase alone in the unemployment rate since July, 1981 will add approximately $55 billion to the deficit totals, while today's lofty interest rates will add another

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/4/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.953	− .267	+ 8.987
Loans to Depository Inst.	.680	+ .132	− .440
Float	2.284	+ .518	− .403
Total Reserve Bank Credit	153.500	+ .909	+ 7.806
Treasury Deposits with Federal Reserve Banks	3.644	+ .286	+ .683
Currency Outside Banks	131.490	+ .593	+ 7.389
Member Bank Reserves:			
Required	39.682	− .374	− .698
Excess (Deficiency)	.333	+ .001	+ .022
Total Reserves Held	40.015	− .373	− .676
Net Borrowed Reserves	.181	+ .153	− .401
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.888	+ 2.037	+ 3.868

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	453.4	− .2‡	+ 5.2‡
M2 (July '82)	1,922.7	+ 8.9	+ 9.6
M3 (July '82)	2,319.7	+ 10.9	+ 10.3
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/13/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.20%	10.30%	10.80%
* Federal Agencies	9.75	10.75	12.70
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.85	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.30	11.90	12.88

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.13%	Sep.	10.50%
15- 29 days	10.25	Oct.	10.70
30- 59 days	10.25	Nov.	10.95
60- 89 days	10.50	Dec.	11.20
90-179 days	10.50	Jan.	11.55
180-239 days	10.88	Feb.	11.20
240-270 days	10.88		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	10.75%		
90-120 days	10.88	Effective Rate	10.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,047	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,477	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.7	− 5.1	− 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82	12.0%	12.0%	8.4%
Change in Producer Prices*	Jul '82n	7.2%	12.0%	4.8%
Civilian Employment (Thousands of Persons)†	Jul '82	99,732	99,764	100,864
Unemployment as % of Civilian Labor Force†	Jul '82	9.8%	9.5%	7.2%
Personal Income*	Jun '82	$ 2,561	$ 2,553	$ 2,398
Leading Indicators Composite Index (1967=100)†	Jun '82	127.9	127.9	135.2
Industrial Production Index (1967=100) †	Jul '82n	138.1	138.2	153.9
Net Change in Consumer Installment Credit†	Jun '82n	$ 1.35	$ 1.40	$ 2.03
U.S. Merchandise Trade Balance †	Jun '82	−$ 3.44	−$ 3.29	−$ 3.28
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jun '82	911	1,075	1,046
New Construction Expenditures*	Jun '82	$ 230.7	$ 227.7	$ 237.5
Total Business Inventories†	Jun '82n	$ 512.0	$ 510.4	$ 501.4
Total Business Sales†	Jun '82n	$ 344.5	$ 349.1	$ 356.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

$20 billion. Together, high rates of unemployment and interest account for the bulk of the $90 billion add-on to the fiscal 1983 deficit, the Administration maintains.

While they may have been a by-product of the recession, it would appear that these deficits also caused the recession. By shocking the financial markets, these deficit projections caused interest rates to remain unusually high compared with the rate of inflation. In turn, this widened Washington's deficit by adding to the government's outlays for interest on the national debt. At the same time, they reduced tax revenues because of the recession that resulted from the inability of business to cope with record high real interest rates.

. . . Just Keeps Growing . . .

As for the major source of these deficits, it is largely due to two of Washington's biggest self-inflicted wounds: the massive cut in personal and corporate income taxes and the sharp increase in defense spending. Since taxes were cut a year ago delays in the expected rebound in private sector activity have ensured that they have not become self-financing as the Administration expected. Thus the cost to the Treasury in terms of foregone revenues could reach $140 billion by fiscal 1984, causing the deficit to be

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/28/82)	144,864	+ 2,075	+19,664
New York City (7/28/82)	36,922	+ 1,593	+ 6,042
Commercial Paper (7/28/82)	181,826	− 756	+30,771

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/28/82)	210,510	+ 79	+29,545
New York City (7/28/82)	59,316	− 151	+ 7,084

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/28/82)	488,218	+ 347	+45,230
New York City (7/28/82)	114,065	+ 574	+ 8,914

Financial Markets

	Friday 8/13/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.15%	− 1.57	− 6.12
180-Day Bills†	9.55	− 2.38	− 5.80
Longest Bills†	11.49	− .02	− 3.06
Recent Issues:			
$13\frac{1}{8}$s 7/31/84	12.35	− .89	
$14\frac{7}{8}$s 6/30/86	13.11	− .74	
$13\frac{3}{4}$s 5/15/92	13.27	− .66	
14s 11/15/11	12.56	− .90	
Municipals:			
Bond Buyer–20 Bond Index* (8/12/82)	11.86%	− .01	− .08
Blue List Total ($ Million)	$ 949	+ $ 36	+ $178
30-Day Visible Supply ($ Million)	$1,818	− $472	− $190
Total	$2,767	− $436	− $ 12
Corporates:			
Moody's Aa Composite (8/12/82)	14.90%	+ .01	− .30
30-Day Visible Supply ($ Million) ‡	$1,125	− $275	NA
Stocks:			
Dow-Jones Averages:			
Industrials	788.05	+ 3.71	− 148.88
Transportation	295.49	− 1.57	− 113.38
Utilities	106.31	+ 1.80	− 8.36
65 Stocks	303.74	+ 1.19	− 68.02
Standard and Poor's 500 Stocks	103.85	+ 1.14	− 28.64
N.Y.S.E. Composite Index	59.54	− .15	− 17.46
N.Y.S.E. Avg. Daily Vol. for Week (000's)	50,214	− 4,040	+ 4,176

* 46% Taxable equivalent 21.96%

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/13/82	Week Ago
Overnight	10.00%	10.63%
1 month	11.25	11.63
3 month	11.88	12.63
6 month	12.75	13.56
1 year	13.00	13.81
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.95%	14.15%
Long Term (7 to 15 yrs.)	14.20	14.35

FOREIGN EXCHANGE SPOT RATES New York Opening (8/13/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02096	47.72
Canada	.7973	1.2542
Denmark	.1152	8.6805
France	.1437	6.9590
Germany	.4004	2.4975
Italy	.0007175	1393.70
Japan	.003823	261.58
Mexico	.01404	71.25
Netherlands	.3636	2.7505
Switzerland	.4676	2.1388
U.K.	1.7110	.5845

larger than it otherwise would have been in the absence of such cuts. As a consequence, the Federal government finds itself absorbing more, not less, of the nation's scarce credit resources.

Even more distressing is the fact that while the $4 per week increase in the average worker's take-home pay is insufficient to spark a strong consumer-led rebound, it is large enough in the aggregate to push the Federal deficit to new record levels. On top of this have come the whopping increases in defense spending which have been promised; already they are running almost 20 per cent, or about $2.5 billion per month, above year-ago levels with huge increases slated well into the future.

If, indeed, the enormous projected deficits do hold up, Federal and Federal-related borrowings will probably absorb almost all of the net savings generated by the economy in 1983 (see MHT's Economic Report—April, 1982) and account for more than 50 per cent of total funds raised in the credit markets, both record-high levels. Even when expressed as a percentage of gross national product, the outlook is dismal, with total Federal and Federal-related borrowings expected to reach a postwar record of more than eight per cent in fiscal 1983.

. . . With Each New Forecast

It is against this backdrop that the financial markets are struggling to establish a firmer footing, businesses are desperately paring capital spending and inventories and consumers are pulling in their horns. And although welcome, the three-year tax increase package now under consideration is simply insufficient to restore Federal financial health: Twelve-digit budget deficits still seem likely.

One way to escape the current dilemma would be to close the self-inflicted wounds. Since the combination of hefty tax cuts and stepped-up defense spending is largely responsible for the anticipated budget deficits, scaling back either would go a long way toward reducing fiscal excess. Postponing only the third stage of the individual income tax cuts would pare the fiscal 1984 deficit to about $100 billion, while trimming the projected defense outlays of $255 billion in that year by only ten per cent would bring the deficit down into the $75 billion zone.

If such a program succeeded in reducing interest rates sufficiently to spark even a modest recovery and bring the unemployment rate back to July, 1981 levels, the remaining deficit would just about disappear. Budget balance in fiscal 1984? Not impossible if the Administration were to scrap its present program and start all over again. ■

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B5530-2 8/25/82

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 23, 1982
VOLUME XIX, NUMBER 34

Concern Over The Financial Structure . . .

Despite widespread expectations that interest rates would rise in the second half of 1982, so far at least, precisely the opposite has occurred. Fueled by a five and one-half percentage point drop in the Federal funds rate since late June, powerful financial market rallies have reduced interest rates across the entire maturity spectrum. But while undoubtedly welcome, these interest rate declines have served to mask a continued deterioration in the business outlook. Faced with an economy yet to exhibit signs of recovery and well-publicized problems in the financial system—not to mention the soaring credit needs of the Treasury—the Federal Reserve has loosened the monetary reins. In so doing, bank reserve pressures have been eased, thereby pushing interest rates sharply lower.

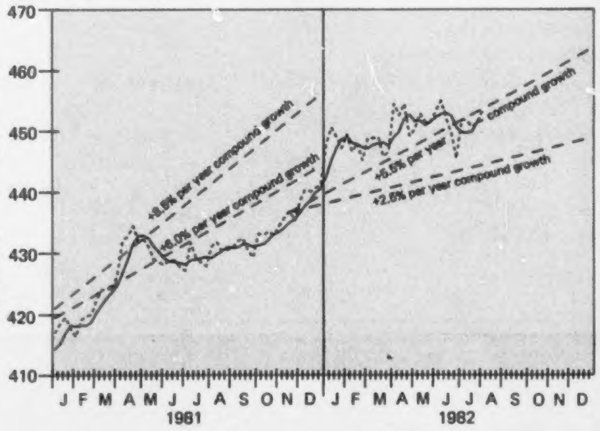
Over the past six weeks, the Fed has repeatedly signaled the financial markets, through both open market operations and discount rate reductions, that it desired not only lower interest rates, but also that it would not tolerate any prolonged backup in rates at this time. For example, despite the sizable $2 billion bulge in the money supply in early August, which placed its year-to-date growth once again near the top of its upper target boundary, the markets—which have usually reacted negatively to such developments—scarcely noticed this time (see chart opposite). Their attention was instead focused on the simultaneous announcement of another one-half percentage point reduction in the Federal Reserve's discount rate, the third within the space of a month, to 10.50 per cent. What is more, the central bank has also been generously providing reserves to the banking system. During the month ending August 11, these building blocks of the money supply expanded at a torrid 26.5 per cent seasonally adjusted annual rate. This is an abrupt turnaround compared with the almost one per cent seasonally adjusted annual rate decline posted during the month ending June 30.

At the same time, the banking system's need for such reserves has not kept pace. Required reserves have actually declined over the past few weeks, reflecting the midsummer slowdown in the growth of the money supply. These trends resulted in a substantial imbalance between the demand for and supply of reserves in the banking system, thus facilitating the sharp decline in interest rates.

. . . Prompts The Fed To Ease

The easing of Federal Reserve policy can only continue, however, as long as money supply growth remains subdued—if the Fed has not decided to abandon altogether its monetarist principles. And since there does not yet appear to have been any basic change in the Fed's intolerance to prolonged periods of above-target money supply growth, a spurt in the money supply could present the central bank with significant problems later this year.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE) VS. WEEKLY FIGURES (DOT)



The combination of repeated discount rate cuts, the sharp upturn in nonborrowed reserves growth and the steep drop in the Federal funds rate within just a few weeks, suggests a degree of monetary easing unmatched since the spring and early summer of 1980. At that time, the discount rate was cut in three steps by three full percentage points, nonborrowed reserves expanded at an approximately 25 per cent seasonally adjusted annual rate, and the Federal funds rate tumbled from just about 20 per cent at the end of March, 1980, to less than nine per cent by the middle of June.

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But while undoubtedly setting the stage for the modest economic rebound which did occur in the second half of 1980, the aggressive easing by the Fed also resulted in a $17 billion spurt in M1 within three months and a $25 billion jump within five. As a result, M1 soared from $4 billion below its *lower* growth target boundary in June, 1980, to almost $3.5 billion above its *upper* target boundary in November of that year. This, in turn, prompted a reversal of monetary policy, with higher interest rates the result. And although the economy is weaker now than in 1980 while inflation rates are much lower, the combination of bigger credit demands by the Treasury, substantial monetary policy stimulation and money supply growth already near the top of its target boundaries could be a recipe for higher—not lower—interest rates before long.

The Light At The End Of The Tunnel . . .

As for the economy, it continues bumping along a rocky bottom with no evidence of a rebound. The drop in money market interest rates has not yet changed things for the average consumer. This means that interest rates are still high enough to discourage potential buyers of big ticket items requiring credit. For example, on average, credit card users pay a finance charge of almost 20 per cent (although these vary widely according to state usury laws). What is more, in recent weeks

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/11/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.905	− .048	+ 9.244
Loans to Depository Inst.	.369	− .311	− .895
Float	2.335	+ .110	− 1.268
Total Reserve Bank Credit	153.759	+ .317	+ 7.596
Treasury Deposits with Federal Reserve Banks	3.950	+ .306	+ .336
Currency Outside Banks	132.356	+ .862	+ 7.811
Member Bank Reserves:			
Required	39.138	− .544	− .756
Excess (Deficiency)	.358	+ .084	+ .156
Total Reserves Held	39.496	− .460	− .600
Net Free Reserves	.122	+ .362	+ .961
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.821	− 2.067	+ 4.314
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	453.4	0.4‡	+ 5.2‡
M2 (July '82)	1,922.7	+ 8.9	+ 9.6
M3 (July '82)	2,319.7	+ 10.9	+ 10.3
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 8/20/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.75%	8.25%	9.05%
* Federal Agencies	9.15	11.45	12.30
* Project Notes—Taxfree (46% Taxable Equivalent)	8.89	9.26	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.75	10.55	11.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.50%	Sep.	8.80%
15- 29 days	7.75	Oct	9.00
30- 59 days	8.00	Nov.	9.50
60- 89 days	8.38	Dec.	9.60
90-179 days	8.50	Jan.	10.00
180-239 days	9.00	Feb.	10.00
240-270 days	9.00		

‡Industrial Paper—Prime			
30- 89 days	8.00%	†Federal Funds	
90-120 days	8.38	Effective Rate	8.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,041	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,475	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.3	− 5.1	− 1.5
Change in Consumer Prices (all urban consumers)*	Jun '82	12.0%	12.0%	8.4%
Change in Producer Prices*	Jul '82	7.2%	12.0%	4.8%
Civilian Employment (Thousands of Persons)†	Jul '82	99,732	99,764	100,864
Unemployment as % of Civilian Labor Force†	Jul '82	9.8%	9.5%	7.2%
Personal Income	Jul '82n	$2,592	$2,567	$2,436
Leading Indicators Composite Index (1967=100)†	Jun '82	127.9	127.9	135.2
Industrial Production Index (1967=100) †	Jul '82	138.1	138.2	153.9
Net Change in Consumer Installment Credit†	Jun '82	$ 1.35	$ 1.40	$ 2.03
U.S. Merchandise Trade Balance †	Jun '82	−$ 3.44	−$ 3.29	−$ 3.28
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jul '82	1,211	906	1,040
New Construction Expenditures*	Jun '82	$ 230.7	$ 227.7	$ 237.5
Total Business Inventories†	Jun '82	$ 512.0	$ 510.4	$ 501.4
Total Business Sales†	Jun '82	$ 344.5	$ 349.1	$ 356.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

some banks have notified their customers of rate increases, while others will impose additional fees.

Durable goods manufacturers or even retailers of such softgoods as textiles and apparel find little to cheer about when it comes to consumer loan rates. While the use of charge cards used to make buying decisions somewhat easier, now people have become more cautious and selective. This is evidenced by smaller rises in purchases on credit. Since the start of the 1980 recession, the use of revolving credit has expanded at an average $270 million per month, about one-third the average increase posted in the previous 29 months. Similarly, the drop in interest rates has not brought relief to potential homebuyers or homebuilders. With mortgage rates on 25 year loans still close to 17 per cent, single family housing starts continue their protracted decline.

. . . Is Getting Dimmer

Unlike mortgage payments, monthly automobile payments are only affected slightly by fluctuating interest rates (Financial Digest—August 17, 1981). However, a decline in rates seems to have a positive psychological effect on shoppers, and has previously given a boost to new car sales, witness the success of GM's 12. 8 per cent financing earlier this year. Currently, the average interest rate on car loans at commercial banks is above 17 per cent—only 16

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/4/82)	146,289	+ 1,425	+20,495
New York City (8/4/82)	38,358	+ 1,436	+ 7,838
Commercial Paper (8/4/82)	180,258	– 1,568	+29,173

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/4/82)	210,974	+ 474	+26,258
New York City (8/4/82)	59,412	+ 96	+ 5,127

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/4/82)	492,333	+ 4,147	+43,181
New York City (8/4/82)	116,668	+ 2,603	+ 8,492

Financial Markets

	Friday 8/20/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.25%	– 1.90	– 8.95
180-Day Bills†	9.05	– .50	– 7.80
Longest Bills†	10.10	– 1.39	– 6.46
Recent Issues:			
13 1/8s 7/31/84	11.20	– 1.15	
14 7/8s 6/30/86	12.05	– 1.06	
13 3/4s 5/15/92	12.30	– .97	
14s 11/15/11	12.18	– .38	
Municipals:			
Bond Buyer—20 Bond Index* (8/19/82)	10.82%	– 1.04	– 1.12
Blue List Total ($ Million)	$ 745	– $204	– $ 55
30-Day Visible Supply ($ Million)	$1,793	– $ 25	– $190
Total	$2,538	– $229	– $245
Corporates:			
Moody's Aa Composite (8/19/82)	14.12%	– .78	– 1.25
30-Day Visible Supply ($ Million) ‡	$1,125	– 0 –	NA
Stocks:			
Dow-Jones Averages:			
Industrials	869.29	+ 81.24	– 51.28
Transportation	324.04	+ 28.55	– 71.75
Utilities	115.36	+ 9.05	+ 2.63
65 Stocks	333.65	+ 29.91	– 29.91
Standard and Poor's 500 Stocks	113.02	+ 9.17	– 16.21
N.Y.S.E. Composite Index	64.65	+ 5.11	– 10.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,172	+40,958	+ 50,408

* 46% Taxable equivalent 20.04%.
‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/20/82	Week Ago
Overnight	9.13%	10.00%
1 month	9.88	11.25
3 month	10.31	11.88
6 month	11.25	12.75
1 year	12.06	13.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.35%	13.95%
Long Term (7 to 15 yrs.)	13.60	14.20

FOREIGN EXCHANGE SPOT RATES New York Opening (8/20/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02120	47.16
Canada	.8087	1.2365
Denmark	.1170	8.5478
France	.1455	6.8750
Germany	.4072	2.4555
Italy	.0007225	1384.10
Japan	.003912	255.65
Mexico	.009302	107.50
Netherlands	.3702	2.7010
Switzerland	.4805	2.0810
U.K.	1.7432	.5737

basis points below the most recent peak reached in the final quarter of 1981.

What is more, persistently high long-term interest rates are one of the major culprits behind the halt in capital spending. Although they have come down somewhat in recent weeks, long-term interest rates are not low enough to spur expenditures on new plant and equipment. In fact, the nation's businesses are apparently continuing to scale back their spending plans. According to a recent Commerce Department survey, businessmen plan to spend 2.2 per cent more for expansion and modernization in 1982 over 1981 levels, whereas three months earlier they projected a 7.3 per cent increase. In additon, since June, a number of large companies, especially in the steel, textile and electronics industries, disclosed further reductions—signaling that 1982's capital spending may even dip below 1981 levels. When the effects of inflation are factored out, real capital spending has not increased since early 1979—the longest pause in recent memory.

To be sure, an increase in the pace of business must also occur before manufacturers contemplate any expansion program. This may be long in coming. Indeed, a recent survey of purchasing managers of major U.S. corporations, suggests that the economy weakened further in July. Not only did production levels deteriorate, but incoming orders—harbingers of future production and employment levels—slowed further. What is more, 90 per cent of the managers told of either stable or declining prices of materials. While this may be good news on the inflation front, it also implies that demand may still be slowing down. This could mean further cutbacks in capacity utilization and a scaling down of capital spending plans. ■

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MH FIXED INCOME FUND
7.3*
SALOMON BROTHERS LONG TERM
HIGH GRADE BOND INDEX
3.0*

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It is this experience, combined with our investment philosophy, that has enabled us to outperform the averages. Just look at our ten year performance.

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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1981
†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies

B5350-2 8/30/82

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 30, 1982 VOLUME XIX, NUMBER 35

A Tenacious Dollar . . .

Despite the steep plunge in U.S. domestic and eurodollar interest rates in recent weeks, the dollar has weakened only slightly in the foreign exchange markets. Since mid-July, the trade-weighted value of the dollar has declined by just about three per cent. In the same period, however, the U.S. discount rate has been trimmed four times—by two percentage points to ten per cent—while the Federal funds rate has dropped by more than four percentage points. Eurodollar rates have also plummeted. The three-month eurodollar rate has fallen by almost one-third since the end of June, from 16 per cent to under 11 per cent.

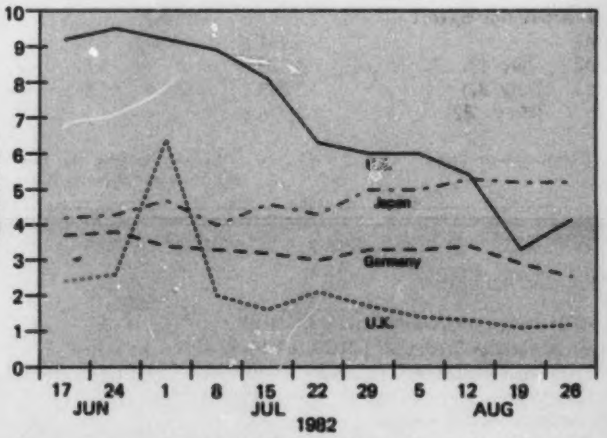
There has been a similar erosion in real (inflation adjusted) eurodollar interest rates. Since mid-July, for example, the real three-month eurodollar rate has plunged from 8.1 per cent to 4.1 per cent—a hefty decline of almost 50 per cent. Further, the positive interest rate spread which dollar-denominated financial assets have had over investments denominated in other currencies has diminished (see chart opposite). Last week, for example, the real three-month euroyen rate was 1.1 percentage points higher than the equivalent eurodollar rate. One month ago, the real euroyen rate was one percentage point lower than the equivalent eurodollar rate.

Until now, it has been the real interest rate advantage of dollar-denominated investments that has been given the primary credit for the resurgence of the dollar in the foreign exchange markets since the beginning of 1980. But this no longer appears to be as dominant a factor as it was even as recently as eight weeks ago. The divergent trends of real interest rates and dollar exchange rates are clearly emphasized by the fact that most of the principal foreign currencies hit their lowest levels in nearly three months against the dollar in mid-August, as U.S. domestic and eurodollar rates were dropping sharply.

. . . Resists Falling Interest Rates

But it would be premature to assume that the often close relationship between real interest rate spreads and the external value of the dollar has disappeared. Rather, it is more likely that the relative importance of other factors affecting exchange rates has increased. There has been a resurgence in the demand for prime-quality investments on the part of investors—domestic and foreign alike—which continues to make the best U.S. investments very attractive. Uncertainty in the Middle East, the much publicized difficulties of some major corporations and the soggy global economic environment have made investors particularly selective. Indeed, the drop in U.S. interest rates, the easing of U.S. monetary policy (Financial Digest— August 23, 1982), moderating inflation rates and passage of the $98.3 billion tax increase package all incline investors to view with increased confidence the near-term prospects for the U.S. economy. Thus, the continuing strength of the dollar appears to be more broadly based than a simple relationship between real interest rates and exchange rates.

REAL EUROCURRENCY INTEREST RATES



Monetary Policymakers Abroad . .

Of equal interest has been the reaction from abroad to falling U.S. interest rates. Until recently, a principal, if not universal, theme in the speeches of foreign statesmen and economists alike has been the restraining effects of high U.S. interest rates on the global economy. Yet, the sharp plunge in U.S. and

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eurodollar interest rates has not, so far, elicited matching reductions abroad. Although there was a flurry of central bank activity last week, uncertainty persists abroad about the duration of the present decline in U.S. interest rates. Consequently, foreign central banks' actions have been tentative, and slow in coming. The German central bank cut its Lombard rate by one per cent to eight per cent and the discount rate one-half per cent to seven per cent. Similar actions were taken by the Swiss, Dutch and Italian central banks. The Bank of England reduced its money market intervention rates in a series of steps totaling three-eighths of one percentage point, which is expected to lead to a cut in the base lending rate in the near future.

Other rates have also responded hesitantly to the decline in domestic U.S. interest rates and eurodollar rates. Although some three-month eurocurrency rates have eased slightly, none have approached the almost five percentage point eurodollar rate plunge. The three-month euromark rate, for example, has fallen by less than one per cent since mid-July. The euroyen rate was virtually unchanged last week from its position of one month ago. It is clear that despite widespread criticism of high U.S. interest rates, other countries are not yet prepared to reduce their interest rates substantially.

Over the past year, individual industrial countries

Selected Federal Reserve Data
(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/18/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	142.782	+ 1.877	+ 8.404
Loans to Depository Inst.	.483	+ .114	– .974
Float	1.866	– .504	– .873
Total Reserve Bank Credit	154.820	+ 1.026	+ 6.615
Treasury Deposits with			
Federal Reserve Banks	2.973	– .977	– .001
Currency Outside Banks	133.348	+ .988	+ 8.015
Member Bank Reserves:			
Required	40.326	+ 1.188	– .916
Excess (Deficiency)	.281	– .112	– .053
Total Reserves Held	40.607	+ 1.076	– .969
Net Borrowed Reserves	.071	+ .228	– .821
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	95.158	– .063	+ 3.406
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates†			
M1	454.9	+ 2.0‡	+ 5.2‡
M2 (July '82)	1,922.9	+ 9.0	+ 9.6
M3 (July '82)	2,319.8	+ 10.9	+ 10.3
L (March '82)	2,716.8	+ 11.2	+ 11.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 8/27/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.40%	9.10%	9.75%
* Federal Agencies	8.80	9.30	10.20
* Project Notes—Taxfree (46% Taxable Equivalent)	9.07	9.91	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.40	11.40	11.75

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.75%	Sep.	9.20%
15- 29 days	8.00	Oct.	9.50
30- 59 days	8.25	Nov.	9.80
60- 89 days	8.63	Dec.	10.00
90-179 days	9.00	Jan.	10.50
180-239 days	9.25	Feb.	10.50
240-270 days	9.25		

‡Industrial Paper—Prime			
30- 89 days	8.75%	†Federal Funds	
90-120 days	9.25	Effective Rate	9.95%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,041	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,475	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.3	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jul '82n	7.2%	12.0%	13.2%
Change in Producer Prices*	Jul '82	7.2%	12.0%	4.8%
Civilian Employment (Thousands of Persons)†	Jul '82	99,732	99,764	100,884
Unemployment as % of Civilian Labor Force†	Jul '82	9.8%	9.5%	7.2%
Personal Income	Jul '82	$2,592	$2,567	$2,436
Leading Indicators Composite Index (1967=100)†	Jun '82	127.9	127.8	135.2
Industrial Production Index (1967=100) †	Jul '82	138.1	138.2	153.9
Net Change in Consumer Installment Credit†	Jun '82	$ 1.35	$ 1.40	$ 2.03
U.S. Merchandise Trade Balance †	Jul '82n	–$ 2.42	–$ 3.44	–$ 1.78
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jul '82	1,211	906	1,040
New Construction Expenditures*	Jun '82	$ 230.7	$ 227.7	$ 237.5
Total Business Inventories†	Jun '82	$ 512.0	$ 510.4	$ 501.4
Total Business Sales†	Jun '82	$ 344.5	$ 340.1	$ 356.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

have sought to insulate their domestic financial markets from the influence of a restrictive U.S. monetary policy through selective interest rate cuts. Such attempts have often resulted in massive capital outflows and consequent depreciation of their currencies against the dollar, but without the expected improvement in employment and economic growth which the easier monetary policy was supposed to generate. Hence, they are reluctant to move precipitately at this time.

. . . Remain Cautious

Now, however, the sharp drop in U.S. interest rates presents foreign monetary policymakers with a range of alternative responses. On the one hand, maintaining interest rates at current levels as U.S. interest rates fall would, as real interest rate spreads turned in favor of the foreign country, lead to a reversal of the previous capital outflow. This, in turn, would result in a strengthening of that currency and a lowering of the cost of imports. Ultimately, if the capital inflows were sufficiently large, such a policy would lead to lower interest rates. The principal question is whether or not the other foreign countries have the time to let such a policy work in the present environment of low growth rates and high levels of unemployment.

On the other hand, an alternative monetary policy would be to allow interest rates to fall in tandem

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/11/82)	144,771	– 1,518	+17,744
New York City (8/11/82)	37,938	– 420	+ 7,478
Commercial Paper (8/11/82)	179,487	– 771	+26,977

Bank Loans
(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/11/82)	211,319	+ 371	+27,287
New York City (8/11/82)	59,292	– 120	+ 5,578

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/11/82)	488,838	– 3,477	+41,567
New York City (8/11/82)	114,166	– 2,502	+ 7,268

Financial Markets

	Friday 8/27/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.12%	+ .87	– 7.88
180-Day Bills†	9.02	– .03	– 7.78
Longest Bills†	10.05	+ .05	– 5.80
Recent issues:			
11$^{5}/_{8}$s 8/31/84 (When Issued)	11.91	NA	
14$^{7}/_{8}$s 6/30/86	12.45	+ .40	
13$^{3}/_{4}$s 5/15/92	12.71	+ .41	
14s 11/15/11	12.48	+ .30	
Municipals:			
Bond Buyer–20 Bond Index* (8/26/82)	10.38%	– .44	– 2.59
Blue List Total ($ Million)	$ 988	+ $243	+ $259
30-Day Visible Supply ($ Million)	$1,584	– $209	– $134
Total	$2,572	+ $ 34	+ $125
Corporates:			
Moody's Aa Composite (8/26/82)	13.94%	– .18	– 1.74
30-Day Visible Supply ($ Million) ‡	$ 870	– $255	NA
Stocks:			
Dow-Jones Averages:			
Industrials	883.47	+ 14.18	– 8.75
Transportation	349.82	+ 25.78	– 25.64
Utilities	114.25	– 1.11	+ 4.51
65 Stocks	343.46	+ 9.81	– 6.76
Standard and Poor's 500 Stocks	117.11	+ 4.09	– 6.97
N.Y.S.E. Composite Index	67.23	+ 2.58	– 4.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	110,080	+18,908	+ 65,356

* 40% Taxable equivalent 18.22%.
‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/27/82	Week Ago
Overnight	9.63%	9.13%
1 month	10.00	9.88
3 month	10.31	10.31
6 month	12.00	11.25
1 year	12.38	12.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.25%	13.35%
Long Term (7 to 15 yrs.)	13.50	13.60

FOREIGN EXCHANGE SPOT RATES New York Opening (8/27/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02129	46.96
Canada	.8091	1.2360
Denmark	.1170	8.5495
France	.1453	6.8825
Germany	.4084	2.4485
Italy	.0007229	1383.30
Japan	.003923	254.90
Mexico	.007968	125.50
Netherlands	.3724	2.6850
Switzerland	.4817	2.0760
U.K.	1.7490	.5718

with U.S. interest rates, maintaining a consistent spread between the two countries' interest rates. The consequences of such a policy would be to continue the existing currency exchange rate, encourage domestic investment and stimulate the export sector as other economies, including that of the United States, improve.

On the evidence presently available, it appears that most foreign central banks have opted for a cautious compromise somewhere in between the two principal alternatives. Interest rate reductions have, so far, been small, reflecting widespread uncertainty about future interest rate trends in the United States, prospects for further reductions in global inflation rates and the timing of economic recovery in the United States and elsewhere. Although the coming weeks will, no doubt, see further monetary policy easing and interest rate reductions abroad as the pressure for stepped-up economic growth increases, such moves will be cautious, tempered by the need to avoid reigniting inflation expectations. ■

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, SEPTEMBER 3, 1982

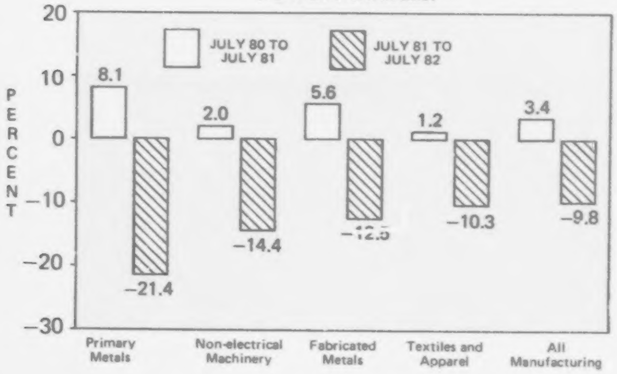
VOLUME XIX, NUMBER 36

Soggy Economic Conditions . . .

Although the recession may be about to bottom out if July's advance in the index of the leading economic indicators and the sharp rise in factory orders are any guides, the turnaround will not come soon enough for many companies and their laid-off workers. The rate of business failures recently spiked upward again, reaching its highest level since the Great Depression. At the same time, the unemployment rate remained riveted at 9.8 per cent in August—its postwar high.

Following a brief midsummer respite, commercial and industrial failures rebounded to a 1982 record in late August. So far this year, failures are running almost 50 per cent ahead of the pace of a year ago and more than double the rate of 1980. Bankruptcies have now spread to virtually all sectors of the economy, with construction and such service industries as retailing and wholesaling especially hard hit. In the final week of August alone, casualties jumped to almost 700, well within striking distance of the all-time peak reached in January, 1932, when 799 businesses failed.

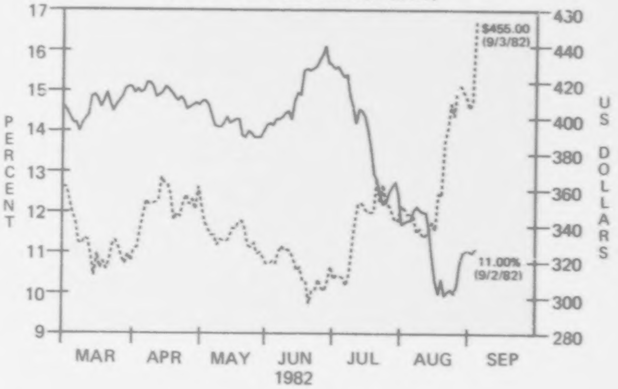
CHART I
EMPLOYMENT IN SELECTED INDUSTRIES
(PERCENT CHANGES)



. . . Claim A Rising Toll Of Businesses . . .

What is more, larger concerns are now failing at a much faster rate than smaller "mom and pop" establishments. Many businesses have been unable to generate sufficient earnings to meet the cost of their swollen debt and so far this year, an average of 246 companies with liabilities of $100,000 or more have failed per week—up 57 per cent from the comparable period in 1981. During the week ending August 26, a total of 366 firms with liabilities of $100,000 or more failed—almost three times the rate of a year earlier.

CHART II
90-DAY EURODOLLAR CD RATE (LINE)
VS. LONDON GOLD PRICE (DOT)



Nor does the prolonged weakness of the economy augur well for a quick improvement in the labor market. The high rate of business failures, sizable chunks of idle capacity and deteriorating profit margins are almost sure to delay a sustained improvement in the employment picture until long after a recovery is firmly underway. In the past four recessions, a decline in the unemployment rate trailed the cyclical trough by an average of six months.

. . . And Swell The Ranks Of Unemployed

Indeed, there are disturbing signs that the unemployment situation may get worse before it gets better. The number of people applying for unemployment insurance soared during the two weeks ending August 21, reversing the downward trend evident since the end of April. Initial unemployment claims during this period topped 600,000 for two weeks in a row—the highest two-week total since the end of March. Another indicator portending further

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deterioration in the employment picture is the sharp drop in the Conference Board's index of help wanted advertising. It fell 35 per cent below year-earlier levels in July. What is more, when the increase in unemployment is taken into account, the number of job seekers per advertised job opening has almost doubled from a year ago.

The slowdown in economic activity has reduced employment in virtually all industries, with manufacturing suffering the most. Since the start of the recession in July, 1981, manufacturing payrolls have contracted by almost ten per cent (see Chart I), leaving 12 per cent of all manufacturing workers unemployed last month. This decline was paced by a loss of 216,000 jobs in the primary metals' industry where currently more than one out of every five workers is out of a job.

The number of steel workers, for example, declined to 295,000 in June—the lowest number since the early 1930s. Because of sharp cutbacks in automobile production and the decline in residential and nonresidential construction, steel mills have been operating at less than 40 per cent of capacity recently, while many plants have closed their doors—some permanently. Shipments of raw steel are now running more than 30 per cent below the comparable period of a year ago, while production is currently off by about 50 per cent.

Another area deeply affected by the recession's bite

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/25/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.237	– .545	+ 7.656
Loans to Depository Inst.	.609	+ .126	– 1.112
Float	1.837	– .066	– .382
Total Reserve Bank Credit	153.783	– 1.066	+ 6.418
Treasury Deposits with Federal Reserve Banks	2.872	– .101	– .234
Currency Outside Banks	132.845	– .511	+ 8.404
Member Bank Reserves:			
Required	40.042	– .284	– 1.195
Excess (Deficiency)	.239	– .071	– .071
Total Reserves Held	40.261	– .355	– 1.266
Net Borrowed Reserves	.276	+ .234	– .889
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.497	– .661	+ 2.850

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	456.3	+ 2.7‡	+ 5.5‡
M2 (July '82)	1,923.3	+ 9.1	+ 9.7
M3 (July '82)	2,320.2	+ 11.0	+ 10.4
L (April '82)	2,752.3	+ 12.7	+ 12.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 9/3/82	3 Months	6 Months	
‡U.S. Treasury Bills	8.20%	9.45%	9.95%
* Federal Agencies	8.85	10.00	10.75
* Project Notes—Taxfree (46% Taxable Equivalent)	8.61	9.81	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
Secondary Market—Prime	10.60	11.80	12.40

‡Finance Company Paper—Prime	
5- 14 days	10.38%
15- 29 days	10.30
30- 59 days	10.13
60- 89 days	10.00
90-179 days	10.00
180-239 days	10.00
240-270 days	10.00

‡* Bankers' Acceptances	
Oct.	10.10%
Nov.	10.20
Dec.	10.30
Jan.	11.00
Feb.	11.00
Mar.	11.00

‡Industrial Paper—Prime	
30- 89 days	10.00%
90-120 days	10.13

†Federal Funds Effective Rate 10.30%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period (or End of Period)		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,041	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,475	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.3	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jul '82	7.2%	12.0%	13.2%
Change in Producer Prices*	Jul '82	7.2%	12.0%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '82n	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force†	Aug '82n	9.8%	9.8%	7.3%
Personal Income*	Jul '82	$2,592	$2,567	$2,436
Leading Indicators Composite Index (1967=100)†	Jul '82n	129.8	128.1	134.8
Industrial Production Index (1967=100)†	Jul '82	138.1	138.2	153.9
Net Change in Consumer Installment Credit†	Jun '82	$ 1.35	$ 1.40	$ 2.03
U.S. Merchandise Trade Balance†	Jul '82	–$ 2.42	–$ 3.44	–$ 1.78
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jul '82	1,211	906	1,040
New Construction Expenditures*	Jul '82n	$ 228.5	$ 230.2	$ 238.1
Total Business Inventories†	Jun '82	$ 512.0	$ 510.4	$ 501.4
Total Business Sales†	Jun '82	$ 344.5	$ 349.1	$ 356.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

is the textiles and apparel industry. In the past three years, payrolls were reduced by almost 300,000 workers, currently leaving almost 15 per cent of the work force unemployed. According to the ILGWU a total of 1.2 million workers is now employed nationwide in apparel manufacturing (not including knitted clothing), down from 1.34 million in 1975.

Gold Prices Soar

Despite the gloomy employment picture, far better days are here again for the gold bugs. In the last six months, gold prices have gyrated widely in response to a rapidly shifting panorama of economic and political events. On June 21, the gold price dropped to its lowest point ($297 per ounce) since mid-August, 1979. But by the end of last week, just two months later, gold had skyrocketed to $455 per ounce—up 53 per cent over the mid-June low—and reached its highest selling price since one year ago.

A wide range of factors has influenced the demand for gold. The Falkland Islands crisis, for example, caused a sharp rise in gold prices in early April, followed by an even greater decline in May and June as fears that the conflict would escalate, abated (see Chart II). Heightened investor concerns over widely-publicized corporate bankruptcies, debt reschedulings and the poor prospects for global economic growth in the near future, have increased the demand for gold.

(Continued on back page)

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/18/82)	148,649	+ 3,855	+21,762
New York City (8/18/82)	39,772	+ 1,834	+ 9,733
Commercial Paper (8/18/82)	178,318	– 1,170	+24,279

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/18/82)	211,116	– 203	+27,855
New York City (8/18/82)	59,249	– 43	+ 5,837

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/18/82)	491,993	+ 3,247	+45,997
New York City (8/18/82)	116,182	+ 2,016	+10,683

Financial Markets

	Friday 9/3/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.54%	+ .42	– 7.66
180-Day Bills†	10.10	+ 1.08	– 6.90
Longest Bills†	10.89	– .06	– 6.21
Recent Issues:			
11 5/8s 8/31/84	11.65	– .26	
14 7/8s 6/30/86	12.53	+ .08	
13 3/4s 5/15/92	12.44	– .27	
14s 11/15/11	12.19	– .29	
Municipals:			
Bond Buyer—20 Bond Index* (9/2/82)	10.74%	+ .36	– 2.36
Blue List Total ($ Million)	$1,165	+ $177	+ $539
30-Day Visible Supply ($ Million)	$2,521	+ $937	+ $1,176
Total	$3,686	+$1,114	+ $1,715
Corporates:			
Moody's Aa Composite (9/2/82)	13.98%	+ .04	– 1.79
30-Day Visible Supply ($ Million) ‡	$1,410	+ $540	NA
Stocks:			
Dow-Jones Averages:			
Industrials	925.13	+ 41.66	+ 63.45
Transportation	369.68	+ 19.86	+ 11.02
Utilities	117.29	+ 3.04	+ 10.85
65 Stocks	359.52	+ 16.06	+ 22.20
Standard and Poor's 500 Stocks	122.68	+ 5.57	+ 2.61
N.Y.S.E. Composite Index	70.26	+ 3.03	+ .71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	86,880	–23,200	+ 45,278

* 46% Taxable equivalent 19.89%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 9/3/82	
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	10.38%	9.63%
1 month	11.00	10.00
3 month	11.50	10.31
6 month	12.50	12.00
1 year	13.00	12.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.37%	13.25%
Long Term (7 to 15 yrs.)	13.57	13.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/3/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02122	47.12
Canada	.8106	1.2336
Denmark	.1162	8.6050
France	.1445	6.9215
Germany	.4072	2.4555
Italy	.0007210	1387.00
Japan	.003910	255.78
Mexico	.007353	136.00
Netherlands	.3717	2.6900
Switzerland	.4797	2.0845
U.K.	1.7408	.5744

The attractiveness of holding gold has been even further enhanced by the recent decline in domestic and euromarket interest rates, which reduces the opportunity costs of holding gold as an investment and, at the same time, has made other forms of investment somewhat less appealing. As eurodollar deposit rates have fallen since mid-June, the price of gold on the international markets has risen correspondingly.

An important reason for the attractiveness of gold in the past has been as a hedge against inflation. In recent years, this has been less of a factor because the increases in the price of gold have far exceeded the inflation rate (Financial Digest—March 22, 1982). As inflation has eased in the United States and abroad, it has become even less important in the rise in gold prices.

Demand for gold has been increasing from a number of sources. Industrial (including jewelry) users of gold are reported to have increased their purchases over the past year, taking advantage of generally low prices to restore inventories. At the same time, world central banks have marginally added to their gold reserves, as well. Although these purchases have not directly contributed to the recent escalation in gold prices, they have been a source of underlying market support. Further, after huge gold sales by the USSR in 1981 (estimated at 280 metric tons compared with 80 metric tons in 1980), the Soviet Union appears to be less active in the market so far this year, reducing available supplies.

The quantitites of gold traded on a daily basis are very small. Total new gold production in 1981 was about 950 metric tons and the total amount of gold traded last year was estimated at 1550 metric tons. Hence, relatively small transactions can have a marked effect on the market price for gold. So, too, small changes in investor sentiment regarding the desirability of holding gold can produce dramatic price swings.

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B5350-2 9/14/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 13, 1982 VOLUME XIX, NUMBER 37

The Most Difficult Choices . . .

One of the more widely accepted reasons for the powerful rallies that recently occurred in the debt and equities markets was the belief among investors that not only has the Federal Reserve substantially eased its restrictive monetary policy stance, but that it has also backed away from the monetarist operating principles which have guided its policy actions since 1979, and begun to pay attention to interest rates once again. But as the most recently published minutes of the Federal Open Market Committee (FOMC) make clear, such beliefs may not be correct. While expressing concern over the soggy pace of business activity, rising bankruptcies and the sluggish rate of money supply growth, the FOMC also reaffirmed its commitment to monetary targeting in general, and the 1982 growth targets in particular. Although it was agreed that monetary growth near the upper ends of its annual target ranges would be tolerated, this is a far cry from the abandonment of either monetary restraint, or of monetarism.

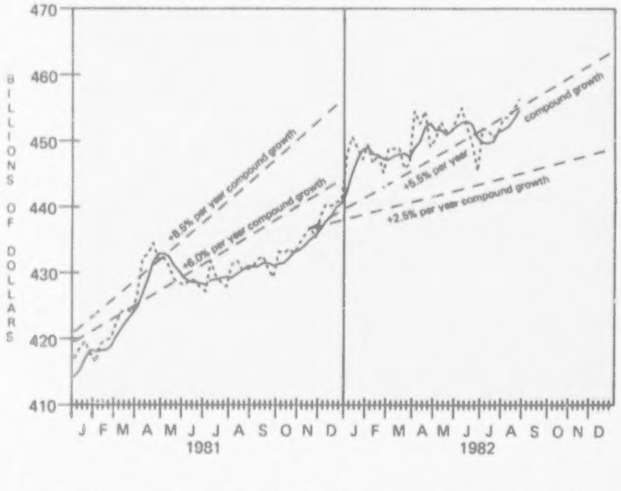
This is not to suggest that Fed actions did not play a major role in the recent easing of bank reserve positions, and the declines in short-term interest rates. In fact, the Fed was instrumental in establishing the conditions for this to occur. But so far, at least, the loosening of the credit reins by the central bank has neither been at the expense of its credibility in the fight against inflation, nor in violation of its 1982 money growth targets. For faced with an economy that was virtually stagnant, as well as mounting liquidity difficulties in both the industrial and financial sectors of the economy, the Fed stepped up its efforts to accelerate M1 growth—but only after it had tumbled below the central bank's 5½ per cent upper target boundary in late June.

As substantial policy leeway emerged, the Fed moved quickly to increase reserves in the banking system and initiated a series of one-half percentage point discount rate cuts. At the same time, since the banking system's need for reserves actually declined between the end of June and the middle of August, this resulted in a sharp imbalance between the supply and demand for reserves, thus exerting downward pressures on all reserve-related interest rates.

. . . For The Federal Reserve . . .

With interest rates dropping and nonborrowed reserve growth accelerating, many observers concluded that the Fed was again emphasizing interest rate, as well as money supply objectives. But it is all too often forgotten that, in the monetarist framework, money supply growth which is too sluggish can be just as damaging to the real economy as too much growth can be to inflation expectations. Thus, with M1 plunging at a five per cent seasonally adjusted annual rate in June and falling well within its annual growth target boundaries, the monetary authorities were presented with a tempting "window of opportunity" to ease the credit reins and push short-term interest rates lower—but without adverse effects on either inflation expectations or its operating philosophy.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE) VS. WEEKLY FIGURES (DOT)



Reflecting at least partially the generous pace of nonborrowed reserve provisioning in recent months, M1 growth has indeed leaped higher. Expanding at a seasonally adjusted annual rate of well under three per cent during the 13 weeks ending August 25, the money supply rose at a rate of over nine per cent

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during the month ending on the same date. What is more, M1 has risen from just $2.1 billion above its *lower* growth target boundary since the end of June to $1.2 billion above its *upper* growth target boundary, during the final week in August. (See chart on page 1.)

The economy may have even begun to stir slightly. The index of leading economic indicators and factory orders both turned higher in July, while the erosion of consumer and business confidence has apparently slowed. But what these developments may have done is to bring monetary policy much closer to a critical crossroads. With money supply growth already accelerating (and now above target), the combination of a modest business rebound and past monetary policy stimulation could turn what was initially thought to be a temporary midsummer money bulge—due to increased Social Security payments and cuts in personal income tax rates—into a prolonged period of monetary excess. If so, just as the slowing of money supply growth raised a welcome window of opportunity, its acceleration may close it, raising the possibility of a firming of the credit reins at precisely the same time that recovery is getting under way. Alternatively, neglecting a sharp and prolonged run-up in money supply growth could be just as damaging, if not to the economy, then to the Fed's inflation-fighting credibility, and certainly to its monetarist principles.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/1/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	141.979	– .258	+ 8.378
Loans to Depository Inst.	.507	– .102	– .941
Float	1.584	– .282	– 1.232
Total Reserve Bank Credit	153.223	– .589	+ 6.569
Treasury Deposits with Federal Reserve Banks	3.157	+ .285	– .262
Currency Outside Banks	131.967	– .880	+ 8.154
Member Bank Reserves:			
Required	40.071	+ .029	– .762
Excess (Deficiency)	.387	+ .118	+ .028
Total Reserves Held	40.458	+ .147	– .734
Net Borrowed Reserves	.025	– .221	– .818
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.985	– .512	+ 2.148

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	457.1	+ 2.8‡	+ 5.7‡
M2 (August '82)	1,946.1	+ 10.2	+ 9.8
M3 (August '82)	2,355.3	+ 13.3	+ 10.8
L (April '82)	2,752.3	+ 12.7	+ 12.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 9/10/82	3 Months	6 Months	[illegible]
‡U.S. Treasury Bills	8.30%	9.60%	10.10%
* Federal Agencies	8.80	10.25	10.90
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	9.63	11.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.55	11.70	12.38

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.88%	Oct.	10.10%
15- 29 days	10.00	Nov.	10.25
30- 59 days	10.13	Dec.	10.45
60- 89 days	10.13	Jan.	10.90
90-179 days	10.13	Feb.	11.10
180-239 days	10.13	Mar.	11.10
240-270 days	10.13		

‡ Industrial Paper—Prime		†Federal Funds	
30- 89 days	10.00%		
90-120 days	10.13	Effective Rate	9.90%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,041	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,475	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.3	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Jul '82	7.2%	12.0%	13.2%
Change in Producer Prices*	Aug '82n	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Aug '82	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force†	Aug '82	9.8%	9.8%	7.3%
Personal Income*	Jul '82	$ 2,592	$ 2,567	$ 2,436
Leading Indicators Composite Index (1967=100)†	Jul '82	129.8	128.1	134.8
Industrial Production Index (1967=100) †	Jul '82	138.1	138.2	153.9
Net Change in Consumer Installment Credit†	Jul '82n	$ 0.57	$ 1.35	$ 1.55
U.S. Merchandise Trade Balance †	Jul '82	–$ 2.42	–$ 3.44	–$ 1.78
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	Jul '82	1,211	906	1,040
New Construction Expenditures*	Jul '82	$ 228.5	$ 230.2	$ 238.1
Total Business Inventories†	Jun '82	$ 512.0	$ 510.4	$ 501.4
Total Business Sales†	Jun '82	$ 344.5	$ 349.1	$ 356.3

***Seasonally adjusted annual rate.** **†Seasonally adjusted.** **n-Newly reported figure.** **a-Anticipated.**

. . . May Be Yet To Come . . .

Judging by the euphoria currently sweeping the equities markets, traders and investors appear convinced that the monetary reins will not be tightened no matter what happens to the money supply. This is because the U.S. economy finds itself perched between a tepid recovery on the one hand, and enduring recession on the other. The debt markets, primarily the bond markets, already laboring under the swelling tide of new Treasury offerings, appear somewhat less convinced. In fact, both may eventually be proved correct.

According to the FOMC minutes of the June 30-July 1 meeting, the Fed " . . . would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident . . . " Although still uncertain, perhaps that period of time will be sufficiently long to get a sustainable recovery under way, but not long enough to prompt another surge in the major price indexes or a sharp deterioration of bond market conditions. Only time will tell and, of course, the monthly trends in the money supply statistics.

. . . At Home And Abroad

The difficult decisions facing the Federal Reserve are not confined to domestic problems. The agendas of the International Monetary Fund (IMF) and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/25/82)	149,798	+ 1,158	+21,215
New York City (8/25/82)	40,227	+ 455	+ 9,368
Commercial Paper (8/25/82)	176,646	− 1,672	+21,598

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/25/82)	210,310	− 760	+26,972
New York City (8/25/82)	59,057	− 192	+ 5,665

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/25/82)	489,586	− 2,184	+41,723
New York City (8/25/82)	115,985	− 197	+10,117

Financial Markets

	Friday 9/10/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.59%	+ .05	− 5.93
180-Day Bills†	10.35	+ .25	− 4.49
Longest Bills†	11.10	+ .21	− 3.31
Recent Issues:			
$11^{5}/_{8}$s 8/31/84	11.91	+ .26	
$14^{7}/_{8}$s 6/30/86	12.59	+ .06	
$13^{3}/_{4}$s 5/15/92	12.64	+ .20	
14s 11/15/11	12.37	+ .18	
Municipals:			
Bond Buyer–20 Bond Index* (9/9/82)	10.75%	+ .01	− 2.46
Blue List Total ($ Million)	$ 994	− $171	+ $ 410
30-Day Visible Supply ($ Million)	$3,083	+ $562	+ $1,490
Total	$4,077	+ $391	+ $1,900
Corporates:			
Moody's Aa Composite (9/9/82)	13.86%	− .12	− 2.09
30-Day Visible Supply ($ Million) ‡	$1,030	− $380	NA
Stocks:			
Dow-Jones Averages:			
Industrials	906.82	− 18.31	+ 34.01
Transportation	369.60	− .08	+ 11.20
Utilities	114.48	− 2.81	+ 7.21
65 Stocks	354.17	− 5.35	+ 14.22
Standard and Poor's 500 Stocks	120.97	− 1.71	− .64
N.Y.S.E. Composite Index	69.41	− .85	− .91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	72,923	−13,957	+ 28,125

* 46% Taxable equivalent 19.91%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/10/82	Week Ago
Overnight	10.63%	10.38%
1 month	11.25	11.00
3 month	11.88	11.50
6 month	12.81	12.50
1 year	13.13	13.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	13.37%
Long Term (7 to 15 yrs.)	13.65	13.57

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/10/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02079	48.09
Canada	.8086	1.2367
Denmark	.1120	8.9285
France	.1411	7.0850
Germany	.3996	2.5025
Italy	.0007087	1411.00
Japan	.003815	262.15
Mexico	.008696	115.00
Netherlands	.3644	2.7440
Switzerland	.4681	2.1363
U.K.	1.7145	.5833

World Bank meetings in Toronto last week were filled with issues which deeply affect the Federal Reserve and U.S. commercial banks.

One of the more vexing problems is the current number of debt reschedulings and the possibility of more to come. It would appear that several nations have incurred levels of external debt which exceed their present ability to repay. High interest rates in recent years, as well as the necessity to borrow short-term, have imposed sizable debt service burdens on these countries. At the same time, the current world recession has not only reduced the size of the market for their exports, but the prices they receive as well. Thus, the borrowing countries, most of which are newly developing, have been hit from both sides.

Additional financial help is needed, but the range of options is not great. If the borrowing nations which find themselves in difficulty are not accommodated through a rescheduling of their debt then *de facto* default is a serious possibility. But debt rescheduling must involve not only the establishment of a feasible repayment plan, it also must involve a measure of financial discipline for the borrowing nation. Debt rescheduling must not be an easy option for borrowers.

The implications of extensive rescheduling of sovereign debt by a number of large national borrowers are certainly a matter for concern. If the central banks of the major industrial nations (including the Federal Reserve) continue to follow monetarist policies by limiting the growth in world credit availability, commercial banks may find it necessary to reduce their lending to the less developed countries. This, in some cases, might lead to default. On the other hand, accommodation of the expanded credit needs of the less developed countries, either through increasing the resources of the IMF and World Bank, or by encouraging commercial banks to add to their already large exposure, might eventually lead to the creation of excess liquidity, hence a new round of inflation. ■

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B5350-2 9/21/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 20, 1982 VOLUME XIX, NUMBER 38

A Detour In August . . .

With autumn just around the corner, hopes for a late-summer rebound in the pace of business activity are fading almost as rapidly as the intensity of the sun's rays. Despite earlier expectations that at least a modest recovery would be underway by midsummer, a renewed decline in retail sales in August, together with further drops in industrial production and capacity utilization rates, have clearly dampened such optimism. What is more, a look at the latest batch of weekly statistics still points toward substantial economic weakness—providing a seemingly endless array of bleak economic news, and making it a good bet that real GNP growth in the current quarter was virtually flat, at best.

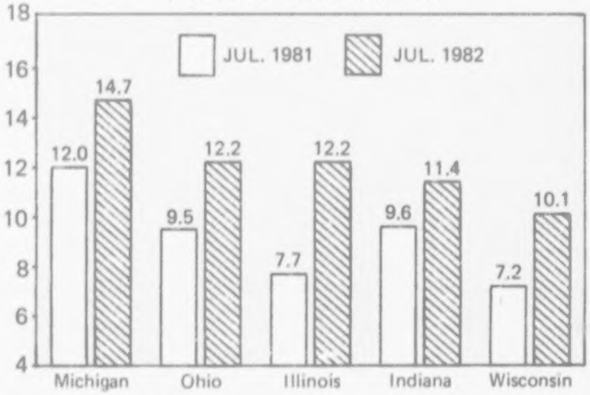
Perhaps the most discouraging economic statistic reported last week was the drop in retail sales. According to the Commerce Department, sales at the nation's retail establishments, after adjustment for seasonality but not for inflation, declined 0.9 per cent in August month-over-month, following a 1.2 per cent gain in July. Since it was widely anticipated that consumers would boost spending following the July 1 cut in personal income tax rates and the upward cost-of-living adjustment to Social Security payments, the renewed decline in retail sales was a most unwelcome development—raising significant doubts as to whether stepped-up consumer spending will prompt economic recovery any time soon. Judging by retail sales trends alone, in fact, an economic upturn may be a long way off. During the three months immediately following the bottom of each of the past three recessions, retail sales have increased, on average, by 1.6 per cent per month. Over the past three months, retail sales have actually declined by an average of about one per cent per month.

To be sure, a good-sized chunk of last month's decline in retail sales stemmed from another slump in automobile sales. However, even when autos are excluded from the total, the news is still grim. Nonautomotive retail sales in August were up just 0.1 per cent month-over-month, well below the 1.2 per cent seasonally adjusted gain in July. And with dealers unable to sell most of the cars already built, it is hardly surprising that the weakness in the automobile industry extends far beyond the sales statistics and into the nation's production indexes as well.

. . . On The Road To Recovery . . .

With the 1982 model year winding down and sales running at an anemic 5.3 million unit seasonally adjusted annual rate in August, auto assemblies fell to a seasonally adjusted 5.5 million unit annual rate last month, or 17 per cent below month-earlier levels. This was largely responsible for the 0.5 per cent month-over-month dip in the overall industrial production index in August. The decline of 10.3 per cent since July, 1981 now surpasses the 9.7 per cent peak-to-trough decline in industrial production posted, on average, during the past three recessions.

UNEMPLOYMENT RATES IN SELECTED MIDWEST STATES
(NOT SEASONALLY ADJUSTED)



As if the malaise affecting the auto industry was not sufficiently grim, the current position of the steel industry is even worse. During the first full week in September, steel output fell almost 50 per cent below year-earlier levels, while capacity utilization rates industry-wide dropped to just 39.8 per cent, the lowest operating rate since the 1930s. As a result, employment in the industry continued its free fall, tumbling below 285,000 workers, and leaving more than one out of every five steelworkers out of a job.

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Nor is the outlook much brighter in the paperboard industry. Paperboard production, used for packaging most goods and thereby indicative of eventual shipment levels, usually begins to rebound before the rest of the economy. But rather than narrowing in August, year-over-year output declines actually widened. Whereas production in the final week in July was down 8.5 per cent year-over-year, by the last week in August it stood almost ten per cent below year-ago levels. So, too, in the housing and lumber, electric power and transportation industries, the slump goes on. Not surprisingly, initial unemployment claims have continued surging ahead and business bankruptcies continue to set post-Depression highs. All of this suggests that, even if it is eventually decided that recovery began this summer, the August results certainly bode ill for both its strength and duration.

. . . Hits The Midwest Particularly Hard

For the Midwest, already hit harder than other regions of the country by the prolonged recession, the recent bleak economic news clearly portends more hard times ahead. This region, which comprises a large proportion of the nation's industrial heartland and is one of its most important agricultural areas, produces more than one quarter of all manufactured durable goods and one half of the nation's corn, soybeans and pork.

The prolonged economic slump has now fully affected the region's manufacturing and non-

Selected Federal Reserve Data

Averages of Daily Figures—Billions of Dollars

	Week Ending 9/8/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.046	− .933	+ 8.769
Loans to Depository Inst.	.944	+ .437	− .634
Float	2.024	+ .526	− .414
Total Reserve Bank Credit	152.804	− .333	+ 8.285
Treasury Deposits with Federal Reserve Banks	3.776	+ .619	+ 1.009
Currency Outside Banks	132.409	+ .441	+ 8.713
Member Bank Reserves:			
Required	38.691	− 1.380	− .617
Excess (Deficiency)	.804	+ .503	+ .354
Total Reserves Held	39.495	− .877	− .263
Net Borrowed Reserves	.034	− .077	− .877
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.442	+ 3.457	+ 4.872

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	461.2	+ 3.9‡	+ 6.1‡
M2 (August '82)	1,946.1	+ 10.2	+ 9.8
M3 (August '82)	2,355.3	+ 13.3	+ 10.8
L (April '82)	2,752.3	+ 12.7	+ 12.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 9/17/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.90%	9.40%	10.05%
* Federal Agencies	9.05	10.05	10.85
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	9.63	11.57
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.95	11.70	12.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.38%	Oct.	10.30%
15- 29 days	9.88	Nov.	10.40
30- 59 days	10.13	Dec.	10.65
60- 89 days	10.25	Jan.	10.85
90-179 days	10.25	Feb.	11.05
180-239 days	10.25	Mar.	11.00
240-270 days	10.25		

‡Industrial Paper—Prime			
30- 89 days	10.00%	†Federal Funds	
90-120 days	10.38	Effective Rate	10.25%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,041	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,475	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	1.3	− 5.1	− 1.5
Change in Consumer Prices (all urban consumers)*	Jul '82	7.2%	12.0%	13.2%
Change in Producer Prices*	Aug '82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Aug '82	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force†	Aug '82	9.8%	9.8%	7.3%
Personal Income*	Jul '82	$ 2,592	$ 2,567	$ 2,436
Leading Indicators Composite Index (1967=100)†	Jul '82	129.8	128.1	134.8
Industrial Production Index (1967=100) †	Aug '82n	138.0	138.7	153.6
Net Change in Consumer Installment Credit†	Jul '82	$ 0.57	$ 1.35	$ 1.55
U.S. Merchandise Trade Balance †	Jul '82	−$ 2.42	−$ 3.44	−$ 1.78
Plant and Equipment Expenditures*	4th Q'82n	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82n	1,002	1,195	946
New Construction Expenditures*	Jul '82	$ 228.5	$ 230.2	$ 238.1
Total Business Inventories†	Jul '82n	$ 513.4	$ 512.8	$ 504.7
Total Business Sales†	Jul '82n	$ 345.4	$ 345.6	$ 355.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

manufacturing sectors, resulting in widespread layoffs in such industries as motor vehicles, farm and construction equipment, appliances, industrial machinery and steel. In July, 1982, the jobless rate exceeded the national average in all Midwest states (see chart on page 1), while a rate in excess of 20 per cent was reported by many counties within the region. Total manufacturing employment in July, 1982 was 20 per cent below its peak level of 1978, reflecting substantial drops in steel, farm equipment and industrial machinery production.

Many of the problems of the Midwest can be attributed to the rapid escalation of world oil prices and to increased foreign competition. These factors have had an especially severe impact on the motor vehicle industry. For example, the number of domestically-produced cars during the first eight months of 1982 ran at an annual rate 44 per cent below 1978 levels. In the same period, imported cars increased their share of the market from 18 per cent to 28 per cent. So, too, truck output during the January-August 1982 period was 46 per cent below 1978 levels, while truck imports accounted for 17 per cent of total sales, up from eight per cent in 1978. For the Midwest, which produces half of the nation's cars and trucks, this has resulted in a substantial decline in employment in the motor vehicle industry. Since 1978, three out of every ten workers employed by this industry in the Midwest have lost their jobs.

In addition to reducing sales of goods manufactured

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change From Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/1/82)	148,634	– 1,164	+18,806
New York City (9/1/82)	40,411	+ 184	+ 9,119
Commercial Paper (9/1/82)	173,918	– 2,728	+20,030

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change From Week Ago	Year Ago
Nationwide (9/1/82)	212,759	+ 2,449	+27,288
New York City (9/1/82)	59,963	+ 906	+ 5,767

Total Loans Gross Adjusted

	Latest Week	Change From Week Ago	Year Ago
Nationwide (9/1/82)	495,454	+ 5,868	+42,656
New York City (9/1/82)	118,681	+ 2,696	+10,115

Financial Markets

	Friday 9/17/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.12%	– .47	– 6.28
180-Day Bills†	10.00	– .35	– 5.10
Longest Bills†	11.00	– .10	– 4.75
Recent Issues:			
12 1/8s 9/30/84 (When Issued)	11.97	NA	
14 7/8s 6/30/86	12.51	– .08	
13 3/4s 5/15/92	12.47	– .17	
14s 11/15/11	12.07	– .30	
Municipals:			
Bond Buyer–20 Bond Index* (9/16/82)	10.74%	– .01	– 2.05
Blue List Total ($ Million)	$1,145	+ $151	+ $ 583
30-Day Visible Supply ($ Million)	$2,750	– $333	+ $1,341
Total	$3,895	– $182	+ $1,924
Corporates:			
Moody's Aa Composite (9/16/82)	13.82%	– .04	– 1.90
30-Day Visible Supply ($ Million) ‡	$1,285	+ $255	NA
Stocks:			
Dow-Jones Averages:			
Industrials	916.94	+ 10.12	+ 80.75
Transportation	362.26	– 7.34	+ 16.75
Utilities	115.63	+ 1.15	+ 11.39
65 Stocks	354.93	+ .76	+ 27.85
Standard and Poor's 500 Stocks	122.55	+ 1.58	+ 6.29
N.Y.S.E. Composite Index	70.35	+ .94	+ 3.08
N.Y.S.E. Avg. Daily Vol. for Week (000's)	71,154	– 1,769	+ 28,692

* 46% Taxable equivalent 19.89%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/17/82	Week Ago
Overnight	10.75%	10.63%
1 month	11.38	11.25
3 month	12.13	11.88
6 month	13.00	12.81
1 year	13.25	13.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	13.50%
Long Term (7 to 15 yrs.)	13.65	13.65

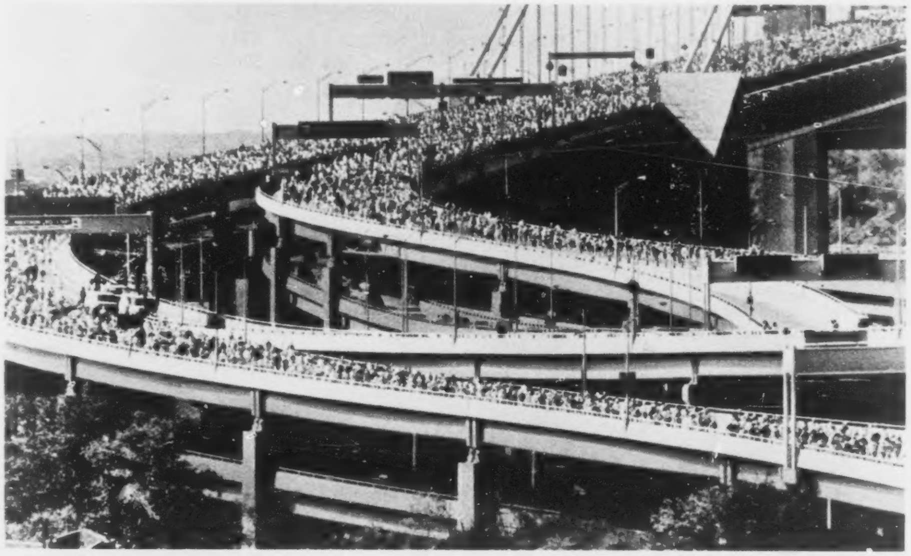
FOREIGN EXCHANGE SPOT RATES

New York Opening (9/17/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02080	48.08
Canada	.8104	1.2339
Denmark	.1130	8.8495
France	.1414	7.0700
Germany	.3998	2.5010
Italy	.0007112	1406.10
Japan	.003794	263.55
Mexico	.01250	80.00
Netherlands	.3650	2.7400
Switzerland	.4689	2.1325
U.K.	1.7090	.5851

in the Midwest, high fuel prices, which increased production and living costs, forced many companies to move to the Sunbelt. Many laid-off workers, unable to find jobs, also headed south in hopes of finding employment.

Not surprisingly, the nationwide decline in construction activity has hit the Midwest harder than other regions. Nationally, housing starts during the first seven months of 1982 ran at a seasonally adjusted annual rate almost 60 per cent below the peak reached in the early 1970s, but in the Midwest they ran 70 per cent below that peak. What is more, the boom in office building construction in Chicago, which had for so long offset the sluggishness in other types of nonresidential construction activity in the region, has faded. The recent glut of office space in Chicago has not only pushed vacancy rates higher as demand has fallen, but has also dampened rents and deterred new projects.

While the industrial sector of the Midwest is languishing, the farming sector, mired in its own recession, has yet to offer any relief for the region's troubled economy. Net farm income, before inventory adjustment, is expected to fall in 1982 for the third consecutive year—to its lowest level since 1977—reflecting lower agricultural prices, higher interest expenses and skyrocketing production costs. The recession in the agricultural sector has also caused farm equipment sales to plunge almost 50 per cent over the past three years. In contrast with earlier industrial downturns when agriculture has often remained prosperous, this time, the dip in farm activity has combined with the downturn in industrial activity, dealing the Midwest a staggering blow.



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 27, 1982

VOLUME XIX, NUMBER 39

Recession Reaches New York State

The softness in the U.S. economy has finally begun to affect New York State. Until recently, the state as a whole showed few repercussions from the national recession. Aided by an aggressive tax reduction program which began in 1977, the state gained almost 500,000 jobs between 1976 and 1981, an increase of 7.2 per cent. But, in the past few months the state's economy began to reflect the nation's malaise. Approximately 62,000 jobs were lost in the year ending July, 1982, mostly reflecting a drop in manufacturing employment while growth continued in the service and finance-related sectors (see chart opposite). Unadjusted for seasonal changes, the state's unemployment rate rose to 8.5 per cent of the labor force in July from 7.8 per cent in July, 1981—but it is still well below the national average of 9.8 per cent.

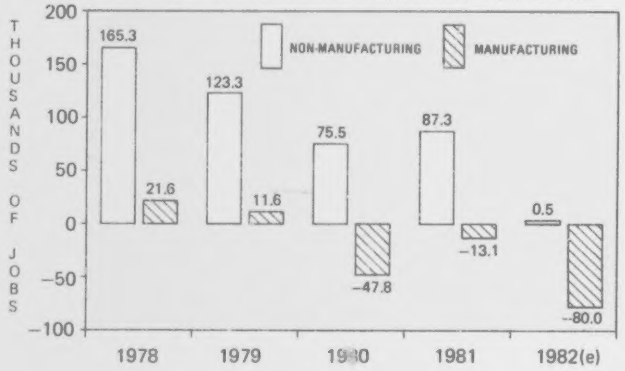
Retail sales have been relatively flat. New York State's retail sales for January through June, 1982 were only 2.7 per cent above the same period in 1981. Residential construction activity also slowed, but the value of new non-residential construction has risen over ten per cent so far this year. New York State's major labor market areas are a mixture of positives and negatives—a microcosm of the United States, although in better shape overall. Unemployment rates in July, for example, ranged from a low of 5.5 per cent in Poughkeepsie to a high of 12.5 per cent in Buffalo.

Manufacturing Drops In New York City

The New York City area highlights the transition from manufacturing to financial and service jobs, although the ten-county Metropolitan region (including New York City, Long Island, Westchester, Rockland and Putnam) had no net change in the total number of jobs between July, 1981 and July, 1982.

In the city, the shift from manufacturing was apparent: 15,900 manufacturing jobs were lost in the twelve months ending in July, while 12,100 jobs in finance and 25,000 in services were gained. The same trend was observed in the suburbs, where 4,800 manufacturing jobs and 1,700 construction jobs were lost, while 9,200 financial and service jobs were added. Trade employment declined by 1,400 jobs in New York City, but increased by 700 in the suburbs, reflecting a continuing shift of wholesalers and retailers from the congested city to the affluent suburban markets.

EMPLOYMENT GAINS AND LOSSES IN NEW YORK STATE



The city's unemployment rate increased from 9.6 per cent to 9.7 per cent between July, 1981 and July, 1982. But jobless rates were lower in the surrounding suburbs: 6.5 per cent in Long Island, 4.7 per cent in Westchester, and 6.2 per cent in Rockland and Putnam counties. It appears that displaced city blue-collar workers lack the skills needed for the emerging financial and service jobs, and that these jobs are being largely filled by suburban commuters. In July, more than 42 per cent of the state's unemployment insurance beneficiaries were New York City residents.

Dampened by unemployment and a leveling of tourism, retail sales in the city during the first six months were 3.5 per cent below the 1981 figure. However, the suburbs showed a sales gain of 7.4 per cent, partly due to lower unemployment rates. The improved inflation picture has particularly helped boost the suburban consumers' buying power. While consumer price inflation in the NYC region slowed to a 5.2 per cent rate in the past year, prices rose even more slowly for home fuel and private transportation, both of which loom large in suburban budgets.

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New construction eased in the NYC region in the first part of the year. So far this year, there has been a drop of 35 per cent in residential building permits compared with 1981. The dollar value of non-residential construction in the region has so far increased by six per cent over last year. Construction in Manhattan is still booming, but the boom may be sowing the seeds of a future glut of office space: 16 new office buildings will open this year and 18 more will open next year. Development costs have soared. Annual rentals of nearly $40 per square foot will be required just to break even—triple the amount paid for comparable space only three years ago. High rentals have already forced many backoffice operations to the outer boroughs and suburbs.

In short, the resurgence in New York City's economy during the past few years seems to have run its course. However, the continuing transition to a service-based economy should pave the way for future growth, once the national economy picks up.

Western And Central New York Are Weak

The two largest labor markets in the western sector of New York State have reacted differently to the national recession. Buffalo's economy has been in a tailspin due to pervasive softness in autos and steel. The area lost five per cent of its non-farm jobs (mostly in manufacturing) between July, 1981 and July, 1982. As a result the unemployment rate jumped to 12.5 per cent in July from 9.2 per cent a year earlier. New construction has reflected the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/15/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.246	– .800	+ 8.333
Loans to Depository Inst.	1.329	+ .385	– .007
Float	2.397	+ .458	– 1.532
Total Reserve Bank Credit	153.148	+ .429	+ 7.618
Treasury Deposits with Federal Reserve Banks	3.468	– .308	+ .471
Currency Outside Banks	132.513	+ .104	+ 8.528
Member Bank Reserves:			
Required	39.233	+ .542	– .573
Excess (Deficiency)	.422	– .297	+ .011
Total Reserves Held	39.655	+ .245	– .562
Net Borrowed Reserves	.818	+ .699	+ .098
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	99.391	+ 1.949	+ 6.541

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		460.6	+ 5.2‡	+ 6.4‡
M2	(August '82)	1,946.1	+ 10.2	+ 9.8
M3	(August '82)	2,355.5	+ 13.4	+ 10.8
L	(May '82)	2,773.2	+ 12.3	+ 11.7

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/24/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.90%	8.60%	9.40%
* Federal Agencies	9.71	11.19	11.71
* Project Notes—Taxfree (46% Taxable Equivalent)	8.52	9.54	11.57
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.60	11.50	11.75

‡ Finance Company Paper—Prime	
5- 14 days	9.50%
15- 29 days	9.63
30- 59 days	9.88
60- 89 days	10.13
90-179 days	10.25
180-239 days	10.25
240-270 days	10.25

‡* Bankers' Acceptances	
Oct.	9.80%
Nov.	10.00
Dec.	10.40
Jan.	10.60
Feb.	10.65
Mar.	10.55

‡ Industrial Paper—Prime	
30- 89 days	10.00%
90-120 days	10.25

† Federal Funds Effective Rate 10.10%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82n	3.6%	7.2%	9.6%
Change in Producer Prices*	Aug '82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '82	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force †	Aug '82	9.8%	9.8%	7.3%
Personal Income*	Aug '82n	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100) †	Jul '82	129.8	128.1	134.8
Industrial Production Index (1967=100) †	Aug '82	138.0	138.7	153.6
Net Change in Consumer Installment Credit †	Jul '82	$ 0.57	$ 1.35	$ 1.55
U.S. Merchandise Trade Balance †	Jul '82	–$ 2.42	–$ 3.44	–$ 1.78
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Jul '82	$ 228.5	$ 230.2	$ 238.1
Total Business Inventories †	Jul '82	$ 513.4	$ 512.8	$ 504.7
Total Business Sales †	Jul '82	$ 345.4	$ 345.6	$ 355.1

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n - Newly reported figure.

a - Anticipated.

area's general economic ills. Since January, permits issued for residences are down one-third from 1981. The value of new non-residential construction declined more than 38 per cent from last year's comparable figure.

The Rochester area is in a considerably stronger position, resulting from its greater reliance on companies engaged in high-technology business. Employment there grew by almost one per cent during the July-to-July period. Nonetheless, the unemployment rate rose to 7.0 per cent in July of this year from 5.9 per cent in July, 1981, because the labor force grew faster than job opportunities. Construction activity in the Rochester area more than held its own, as permits for new residences increased seven per cent so far in 1982 over the same period last year.

The four major labor market areas in central New York (Albany-Schenectady-Troy, Binghamton, Syracuse and Utica-Rome) lost about one per cent of their non-farm jobs in July, 1982 over 1981. In a shift to the finance and service sectors, nearly 10,000 manufacturing jobs were lost here, while over 3,000 non-manufacturing jobs were added. The unemployment rate for these four areas was only 7.7 per cent, however, compared with the statewide average of 8.5 per cent. Construction activity was also relatively flat in this central region.

The Hudson Valley (Poughkeepsie) is noteworthy

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/8/82)	147,492	– 1,138	+20,005
New York City (9/8/82)	39,650	– 761	+ 8,883
Commercial Paper (9/8/82)	171,194	– 2,868	+15,204

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/8/82)	213,005	+ 264	+28,425
New York City (9/8/82)	59,889	– 74	+ 6,188

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/8/82)	494,003	– 1,427	+42,113
New York City (9/8/82)	117,676	– 1,005	+ 9,417

Financial Markets

	Friday 9/24/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.94%	– .18	– 6.78
180-Day Bills†	9.75	– .25	– 5.95
Longest Bills†	10.59	– .41	– 5.52
Recent Issues:			
12$^1/_8$s 9/30/84 (When Issued)	11.77	– .20	
12$^1/_4$s 9/30/86 (When Issued)	12.06	NA	
13$^3/_4$s 5/15/92	12.31	– .16	
14s 11/15/11	11.90	– .17	
Municipals:			
Bond Buyer–20 Bond Index* (9/23/82)	10.58%	– .16	– 1.99
Blue List Total ($ Million)	$1,215	+ $ 70	+ $ 607
30-Day Visible Supply ($ Million)	$2,618	– $132	+ $1,186
Total	$3,833	– $ 62	+ $1,793
Corporates:			
Moody's Aa Composite (9/23/82)	13.46%	– .36	– 2.49
30-Day Visible Supply ($ Million) ‡	$1,509	+ $224	NA
Stocks:			
Dow-Jones Averages:			
Industrials	919.52	+ 2.58	+ 95.51
Transportation	369.60	+ 7.34	+ 34.12
Utilities	117.06	+ 1.43	+ 14.85
65 Stocks	358.14	+ 3.21	+ 37.55
Standard and Poor's 500 Stocks	123.32	+ .77	+ 10.55
N.Y.S.E. Composite Index	70.75	+ .40	+ 5.79
N.Y.S.E. Avg. Daily Vol. for Week (000's)	68,504	– 2,650	+ 18,892

* 46% Taxable equivalent 19.59%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/24/82	
Overnight	10.63%	10.75%
1 month	11.25	11.38
3 month	11.69	12.13
6 month	12.31	13.00
1 year	12.31	13.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.25%	13.50%
Long Term (7 to 15 yrs.)	13.45	13.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/24/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02054	48.69
Canada	.8114	1.2325
Denmark	.1134	8.8155
France	.1407	7.1075
Germany	.3977	2.5143
Italy	.0007061	1416.20
Japan	.003752	266.50
Mexico	.01143	87.50
Netherlands	.3630	2.7545
Switzerland	.4634	2.1578
U.K.	1.7087	.5852

because its specialization in high-technology makes it—along with Rochester—one of the state's healthiest regions. Manufacturing accounts for one-third of the area's jobs. Of the 2.2 per cent gain in jobs in the July-to-July period, most were in manufacturing. Unemployment dropped to 5.5 per cent of the labor force—the lowest jobless rate in the state.

In the cloudy atmosphere of a weak national recovery from recession, New York State's economy will probably remain stagnant for the remainder of 1982. Unemployment rates could rise higher—but there are some bright spots as well. Areas that specialize in high-technology or defense industries (Rochester, Poughkeepsie and the NYC suburbs) will continue to prosper, while New York City will continue to be sustained by its financial and service sectors. At the moment, the best hopes for long-run economic health in New York State lie in its continued transition from traditional industrial activities to a more modern emphasis on services and high-technology manufacturing.

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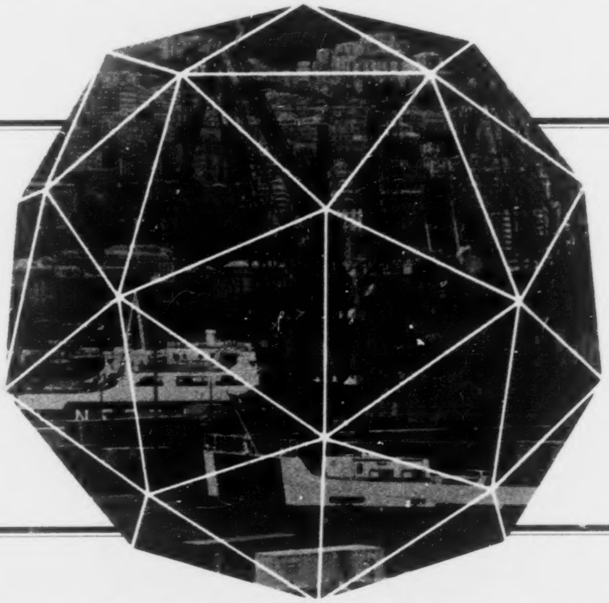

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 4, 1982 VOLUME XIX, NUMBER 40

The Recovery Stalls . . .

The on-again, off-again economic recovery has suffered another setback. The index of leading economic indicators declined by 0.9 per cent in August, following four monthly gains in a row. The index of coincident indicators which moves in tandem with the economy continued its slide; it has been declining on balance for over a year. Both statistics indicate that widely-voiced reports of the recession's demise at midyear were greatly exaggerated and any sustained expansion in economic activity will probably not commence until well into the current quarter—if not next year.

Of the ten available statistics which comprise the index of leading indicators, five contributed to the decline. The most unwelcome news came from those figures dealing with the unemployment picture. The number of people applying for unemployment insurance soared nearly 20 per cent in August compared with July. In early September, their ranks swelled even further, as initial claims averaged a seasonally adjusted 658,000 per week, up from 606,000 the month before. Indeed, during the week ending on September 18, initial claims rose to a seasonally adjusted 703,000—the highest level in the history of the series. Ominously, the average workweek of manufacturing employees was shortened in August for the first time in five months—portending further layoffs.

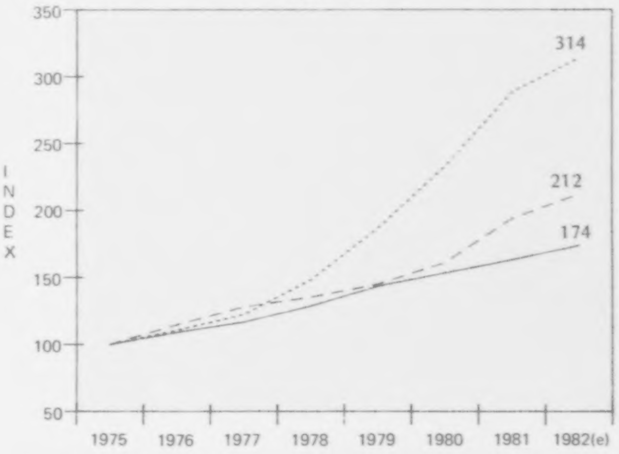
Persistently high unemployment has depressed people's spirits and seems to have had a devastating impact on their buying habits. Apprehensive about the future, consumers have curtailed borrowing and cut back spending. According to the Conference Board's survey of consumer attitudes and buying plans, consumer confidence soured in September, as the Board's confidence index plunged to 53.5 (1969-70=100) from 61.6 just two months earlier. The buying plans index sank by more than 17 points during this time period to less than 75, as fewer people voiced intentions to buy a car, a home, major appliances or home furnishings.

. . . Waiting For A Push . . .

To be sure, people have not curtailed spending in all areas. They continue to purchase more services and nondurable goods, while postponing purchases of big-ticket durables, such as autos and housing related items. However, if a rebound in economic activity is to take place, its timing and intensity remain pinned to the fortunes of these two industries—automobile and housing.

Sales of new cars perked up early in September, averaging 6.8 million units at a seasonally adjusted annual rate during the first two ten-day selling periods. This is a substantial improvement over the weak pace of the previous three months, when cars sold at a poor five million unit clip. Whether this upward momentum can be sustained, however, remains to be seen.

AVERAGE MONTHLY MORTGAGE PAYMENT (DOT) AND
AVERAGE MONTHLY AUTO LOAN PAYMENT (DASH)
VS. MEDIAN FAMILY INCOME (LINE)
(1975=100)



Some indicators considered to be harbingers of near-term performance of the auto industry show reason for optimism. A glance at consumer balance sheets suggests that car sales could pick up soon. People have curtailed borrowing during the past year and real incomes have increased as inflation has slowed. The average age of cars on the road is now about seven years, the highest since just after World War II. What is more, the cost of operating and maintaining a car has remained

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virtually unchanged since last December. However, the negative factors continue to outweigh the positive ones.

. . . From Automobiles . . .

Probably the single most important deterrent to domestic car sales has been affordability. As manufacturers sought to pass the cost of developing new lines of more fuel-efficient cars on to buyers, the average price of a new car (including imports) has jumped sharply, more than doubling since 1975. When this increased cost is combined with the escalation in interest rates, monthly payments have ballooned even faster, outpacing by far the growth in median family income. (See chart on page 1.)

In an attempt to slow the rapid growth in monthly payments, buyers have been stretching out maturities of new car loans. In early 1977, for example, only 20 per cent of new car loans obtained at finance companies were contracted for more than 42 months. This proportion expanded to 54 per cent in February, 1979; currently over 80 per cent of new car loans extended by finance companies are written for more than 42 months.

Traditionally, sales are at their yearly highs in the fall, following the unveilings of new models. However, manufacturers no longer wait until late September to introduce new models. A new sell-when-they-are-ready approach is replacing the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/22/82	% Change Since Week Ago	% Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.198	+ .952	+ 8.282
Loans to Depository Inst.	.809	– .520	– .639
Float	2.225	– .058	– 1.230
Total Reserve Bank Credit	153.767	+ .733	+ 7.437
Treasury Deposits with Federal Reserve Banks	3.611	+ .143	+ .259
Currency Outside Banks	132.704	+ .191	+ 8.660
Member Bank Reserves:			
Required	40.002	+ .769	– .392
Excess (Deficiency)	.204	– .104	– .073
Total Reserves Held	40.206	+ .665	– .465
Net Borrowed Reserves	.505	– .427	– .436
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.486	– 2.905	+ 4.812

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	461.0	+ 6.6‡	+ 6.6‡
M2 (August '82)	1,946.2	+ 10.3	+ 9.8
M3 (August '82)	2,355.7	+ 13.4	+ 10.8
L (May '82)	2,773.2	+ 12.3	+ 11.7

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/1/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.30%	8.55%	9.35%
* Federal Agencies	8.25	9.15	10.50
* Project Notes–Taxfree (46% Taxable Equivalent)	8.33	9.35	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.40	10.65	11.45

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	10.00%	Nov.	9.90%
15- 29 days	10.00	Dec.	10.00
30- 59 days	10.00	Jan.	10.10
60- 89 days	10.13	Feb.	10.25
90-179 days	10.13	Mar.	10.10
180-239 days	10.13	Apr.	10.05
240-270 days	10.13		

‡ Industrial Paper–Prime		† Federal Funds	
30- 89 days	10.13%		
90-120 days	10.25	Effective Rate	10.50%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Aug '82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '82	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force †	Aug '82	9.8%	9.8%	7.3%
Personal Income*	Aug '82	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100) †	Aug '82n	128.6	129.8	134.1
Industrial Production Index (1967=100) †	Aug '82	138.0	138.7	153.6
Net Change in Consumer Installment Credit †	Jul '82	$ 0.57	$ 1.35	$ 1.55
U.S. Merchandise Trade Balance †	Aug '82n	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Aug '82n	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories †	Jul '82	$ 513.4	$ 512.8	$ 504.7
Total Business Sales †	Jul '82	$ 345.4	$ 345.6	$ 355.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

fall introduction as automakers rush to bring competitive products to a rapidly changing market. In any case, the few new models this fall will largely be carry-overs from the 1982 model year, sparking little of the enthusiasm of yesteryear.

. . . And Housing

Although mortgage interest rates have edged down in the last six months, the drop has not yet produced any improvement in residential construction or home sales. However, there are some positive signs. Many real estate agents are reporting a surge in buyer interest. But with mortgage rates still hovering around 16 per cent and added points and other fees raising the effective rate even higher, interest rates must fall well below current levels before a significant improvement in the housing industry can occur.

Despite the depressed levels of new home sales, the median price of a new home rose in August to a record $73,200. As a result, the monthly payment required to service a 25-year conventional mortgage, assuming a 25 per cent down payment, now approaches $800. Applying the rule of thumb that the monthly payment should not exceed 25 per cent of a family's gross monthly income, some 85 per cent of potential first-time buyers can not afford to buy a new home. When taxes and insurance are included, the proportion rises even higher.

(Continued on back page)

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/15/82)	146,755	– 521	+20,106
New York City (9/15/82)	39,095	– 555	+ 8,172
Commercial Paper (9/15/82)	172,448	+ 1,262	+12,194

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/15/82)	216,075	+ 3,043	+30,397
New York City (9/15/82)	61,381	+ 1,492	+ 7,197

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/15/82)	497,713	+ 3,754	+44,384
New York City (9/15/82)	119,329	+ 1,653	+10,965

Financial Markets

	Friday 10/1/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.50%	– .44	– 7.50
180-Day Bills†	9.07	– .68	– 6.78
Longest Bills†	10.10	– .49	– 5.93
Recent Issues:			
12⅛s 9/30/84	11.25	– .52	
12¼s 9/30/86	11.55	– .51	
13¾s 5/15/92	11.95	– .36	
14s 11/15/11	11.63	– .27	
Municipals:			
Bond Buyer–20 Bond Index* (9/30/82)	10.48%	– .10	– 2.45
Blue List Total ($ Million)	$1,177	– $ 38	+ $ 441
30-Day Visible Supply ($ Million)	$2,821	+ $203	+ $ 990
Total	$3,998	+ $165	+ $1,431
Corporates:			
Moody's Aa Composite (9/30/82)	13.43%	– .03	– 3.03
30-Day Visible Supply ($ Million) ‡	$1,112	– $397	NA
Stocks:			
Dow-Jones Averages:			
Industrials	907.74	– 11.78	+ 47.01
Transportation	365.03	– 4.57	– .41
Utilities	115.91	– 1.15	+ 13.10
65 Stocks	353.76	– 4.38	+ 16.54
Standard and Poor's 500 Stocks	121.97	– 1.35	+ 2.61
N.Y.S.E. Composite Index	70.01	– .74	+ 1.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	60,242	– 8,262	+ 10,566

* 46% Taxable equivalent 19.41%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

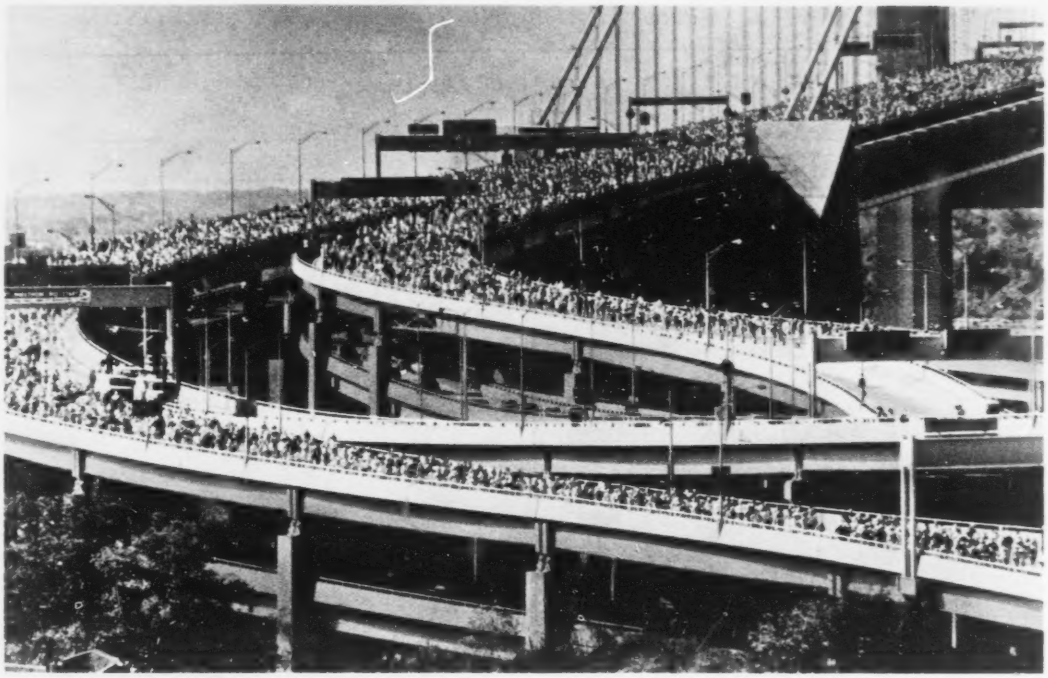
	Friday 10/1/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.88%	10.63%
1 month	11.00	11.25
3 month	11.50	11.69
6 month	11.94	12.31
1 year	12.19	12.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.10%	13.25%
Long Term (7 to 15 yrs.)	13.25	13.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/1/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02042	48.97
Canada	.8090	1.2361
Denmark	.1133	8.8275
France	.1402	7.1325
Germany	.3963	2.5235
Italy	.0007039	1420.70
Japan	.003723	268.60
Mexico	.01081	92.50
Netherlands	.3622	2.7610
Switzerland	.4607	2.1708
U.K.	1.6965	.5894

The sharp rise in average monthly payments in the past several years (see chart on page 1) has quickly changed the characteristics of the typical home-buyers. They are now older, more affluent, and most have previously owned a home. Whereas first-time buyers made up 36.0 per cent of the market in 1979, in 1981 they accounted for only 13.5 per cent. Their median income rose from $28,100 in 1979 to $39,200 in 1981. The median age has risen from 27 years in 1979 to 28 in 1981.

Since the hopes of the housing industry rise and fall with swings in interest rates, the expected recovery in this industry may be the mildest in over two decades. Mortgage interest rates are not expected to come down to low enough levels to give a significant boost to new construction or home sales before the second half of 1983, at the earliest.



The New York City Marathon, co-sponsored by Manufacturers Hanover

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

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But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, OCTOBER 8, 1982
VOLUME XIX, NUMBER 41

Europe Follows The U.S.

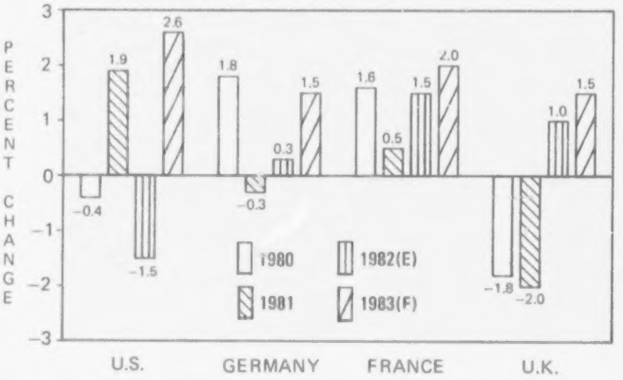
The economies of the major countries of Western Europe continue to march in lockstep, following the laggard pace of the United States. The same litany of economic woes which is delaying recovery here—lofty interest rates, tight credit and growing unemployment—is being repeated in many European countries. Just as in the United States, forecasts of economic recovery are constantly revised downward. Not only does the onset of recovery seem farther and farther away, but estimates of its size and strength have been reduced as well. Overall growth in Europe this year will be below one per cent and it is now expected to be only about 1.5 per cent next year, down from the still paltry 2.5 per cent which was widely projected for 1983 as recently as midyear.

In West Germany, forecasts, which just a few months ago anticipated one per cent growth in real GDP for 1982 and over three per cent in 1983, now project less than one-half of one per cent growth this year and one to two per cent next year (see chart opposite). Although inflation has eased from about six per cent in 1981 to a current annualized rate of five per cent, unemployment has skyrocketed. In August, 7.8 per cent of the German work force was out of work—the highest level in 30 years. What is more, unemployment is still growing and may well exceed eight per cent by yearend. The business climate, particularly for manufacturing, is also deteriorating, as business failures mount and export orders continue to decline. Business insolvencies for the first half of this year were about 40 per cent higher than in the same period one year earlier (Financial Digest—July 12, 1982). Exports, which have averaged almost 29 per cent of GNP over the past five years, were down 11 per cent in volume terms in July compared with the same month a year ago, and were six per cent below the previous month. As inventories have risen and factory orders have fallen, industrial production has declined, reflecting the weakness of both domestic and export demand.

Weakness Is Widespread . . .

The German economy is the largest and most powerful in Europe. With evidence of weakness widespread throughout all sectors of the economy, the prospects for the rest of Europe are also bleak: In the near term, West Germany does not seem likely to be a driving force for European economic recovery. Further, uncertainty about the future direction of economic policy has been generated by the recent change in government and the prospect of new elections next March. Hence, for the next six months, the new government may be more concerned with political affairs, rather than the development of a long-term economic policy.

REAL GDP/GNP GROWTH IN SELECTED OECD COUNTRIES



(E) – estimate (F) – forecast

The economic problems in West Germany have an impact spreading far beyond its borders. France, for example, which sends about 16 per cent of its exports to the German Federal Republic and another 43 per cent to the rest of Western Europe, has also reconsidered its economic policies. The expansionary measures introduced by the Mitterrand government last year have resulted in a higher rate of real growth than most of its European neighbors so far this year, but at the cost of high inflation, currently running at an 11 per cent annual rate, and a skyrocketing trade deficit, almost $10 billion in the first eight months of this year.

The massive outflow of funds resulting from the trade deficit has awakened the specter of a further devaluation of the French franc and perhaps the necessity of leaving the European Monetary System.

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Consequently, France has introduced a series of deflationary measures (including wage and price controls) which have caused estimates of real GDP growth to be reduced from 2.5 per cent to 1.5 per cent this year and perhaps two per cent next year. In spite of these steps, however, the expected large deficit in this year's merchandise trade account may lead to a record current account shortfall in excess of $10 billion.

The United Kingdom is depending heavily on a general world economic recovery to stimulate its export-oriented economy. Exports from the U.K. are equal to about 30 per cent of GNP. After two years of negative growth in real GNP, this year the United Kingdom expects only about a one per cent rise and perhaps another 1.5 per cent next year. The hiatus in GNP growth in 1980 and 1981 and this year's weak economic performance are attributable not only to the poor state of the global economic environment, but, more important, to the rigorous fiscal and monetary regimen to which the country has been subjected by the present government. As in the United States, the anti-inflationary policy introduced by Mrs. Thatcher was characterized by a very restrictive monetary policy. The economy has responded as might be expected. Growth stopped but the inflation rate slowed as well, from an annual rate of 18 per cent in 1980 to a current annualized rate of eight per cent. Unemployment in Great

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/29/82	% Change Since Week Ago	% Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	140.750	– .448	+ 8.733
Loans to Depository Inst.	.749	– .060	– .694
Float	1.774	– .496	– .984
Total Reserve Bank Credit	152.765	– 1.045	+ 7.701
Treasury Deposits with			
Federal Reserve Banks	4.489	+ .878	+ 1.068
Currency Outside Banks	130.583	– 2.140	+ 8.831
Member Bank Reserves:			
Required	40.279	+ .277	– .732
Excess (Deficiency)	.291	+ .049	– .282
Total Reserves Held	40.570	+ .326	– 1.014
Net Borrowed Reserves	.346	– .121	– .291
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	97.939	+ 1.453	+ 6.477

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	460.4	+ 8.7‡	+ 6.8‡
M2 (August '82)	1,946.2	+ 10.3	+ 9.8
M3 (August '82)	2,355.7	+ 13.4	+ 10.8
L (June '82)	2,797.8	+ 12.0	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/8/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.35%	8.10%	8.30%
* Federal Agencies	7.65	9.07	9.75
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.80	10.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.75	9.60	10.63

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.00%	Nov.	9.75%
15- 29 days	9.50	Dec.	9.75
30- 59 days	9.50	Jan.	9.80
60- 89 days	9.50	Feb.	9.80
90-179 days	9.63	Mar.	9.60
180-239 days	9.63	Apr.	9.45
240-270 days	9.63		

‡Industrial Paper—Prime			
30- 89 days	9.63%	†Federal Funds	
90-120 days	9.75	Effective Rate	9.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Aug '82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Sep '82n	99,720	99,839	100,258
Unemployment as % of Civilian Labor Force†	Sep '82n	10.1%	9.8%	7.6%
Personal Income*	Aug '82	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100)†	Aug '82	128.6	129.8	134.1
Industrial Production Index (1967=100) †	Aug '82	138.0	138.7	153.6
Net Change in Consumer Installment Credit†	Aug '82n	$ 0.07	$ 0.57	$ 2.43
U.S. Merchandise Trade Balance †	Aug '82	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Jul '82	$ 513.4	$ 512.8	$ 504.7
Total Business Sales†	Jul '82	$ 345.4	$ 345.6	$ 355.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Britain, which is the highest since the 1930s, is approximately 12.5 per cent of the work force and still rising. However, wage settlements have been moderate, which has contributed to the slowing inflation rate. The prospects for the United Kingdom next year are not bright, given the delayed recovery in the global economic environment, poor prospects for world trade and the near certainty that any recovery will be sluggish.

. . . As Real Interest Rates Stay High

The pattern of recessionary or low growth rates, rising unemployment and mounting business failures which plagues the major European countries owes much to their response to high U.S. real interest rates which in turn result from the Fed's restrictive monetary policies. With the exception of the United Kingdom, whose anti-inflationary policies predate those of the U.S., most European countries implemented defensive monetary and exchange rate policies in response to huge capital outflows to the U.S. seeking interest rate advantage and the consequent deterioration of their currency's exchange rate against the dollar. The effect of these defensive measures, while retarding inflation, also suppressed demand and raised lending rates to near prohibitive levels just as in the United States. In spite of the recent declines in U.S. interest rates, this country still enjoys a real interest rate advantage over most European countries. Consequently, interest rates

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/22/82)	148,887	+ 2,132	+20,462
New York City (9/22/82)	38,798	− 297	+ 7,628
Commercial Paper (9/22/82)	174,121	+ 1,673	+10,291

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/22/82)	216,990	+ 915	+31,538
New York City (9/22/82)	61,576	+ 195	+ 7,696

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/22/82)	497,676	− 38	+46,804
New York City (9/22/82)	118,415	− 914	+11,542

Financial Markets

	Friday 10/8/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.61%	+ .11	− 6.09
180-Day Bills†	8.70	− .37	− 5.92
Longest Bills†	10.20	+ .10	− 4.65
Recent Issues:			
12 1/8s 9/30/84	9.74	− 1.51	
12 1/4s 9/30/86	10.42	− 1.13	
13 3/4s 5/15/92	11.19	− .76	
14s 11/15/11	11.03	− .60	
Municipals:			
Bond Buyer–20 Bond Index* (10/7/82)	9.75%	− .73	− 2.98
Blue List Total ($ Million)	$ 858	− $319	+ $ 54
30-Day Visible Supply ($ Million)	$2,546	− $275	+ $648
Total	$3,404	− $594	+ $702
Corporates:			
Moody's Aa Composite (10/7/82)	13.17%	− .26	− 2.55
30-Day Visible Supply ($ Million) ‡	$ 810	− $302	NA
Stocks:			
Dow-Jones Averages:			
Industrials	986.85	+ 79.11	+ 113.85
Transportation	385.79	+ 20.76	+ 14.51
Utilities	120.25	+ 4.34	+ 16.09
65 Stocks	379.00	+ 25.24	+ 36.85
Standard and Poor's 500 Stocks	131.05	+ 9.08	+ 9.60
N.Y.S.E. Composite Index	75.00	+ 4.99	+ 4.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,888	+37,646	+ 49,026

* 46% Taxable equivalent 18.06%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

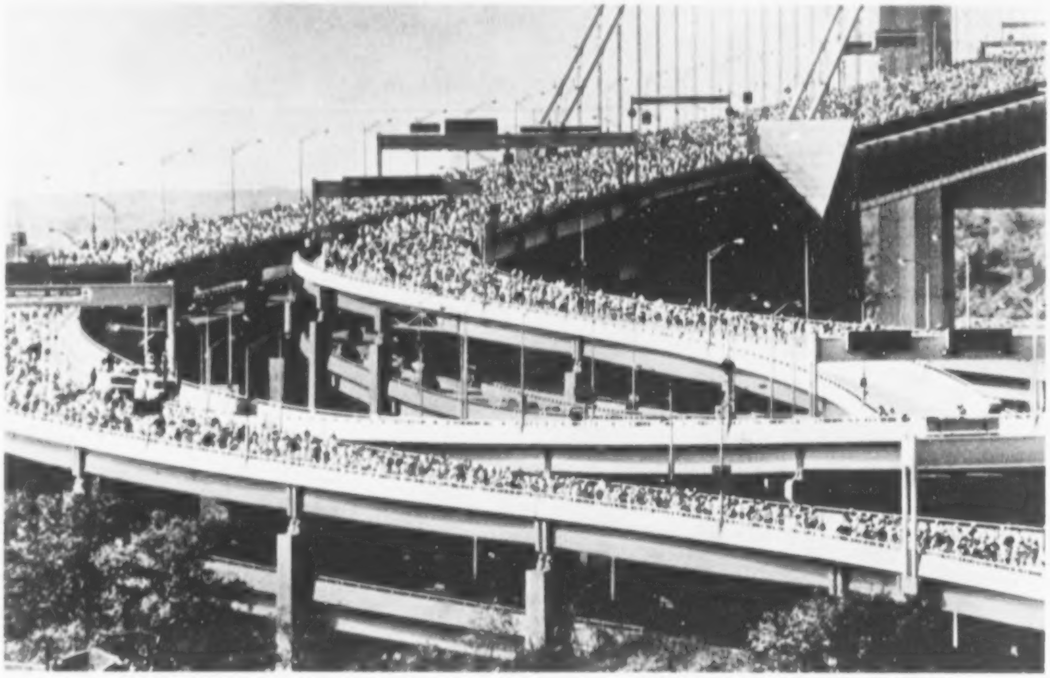
EURODOLLAR DEPOSIT RATES (bid)	Friday 10/8/82	Week Ago
Overnight	9.63%	11.88%
1 month	10.63	11.00
3 month	10.75	11.50
6 month	11.13	11.94
1 year	11.75	12.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.80%	13.10%
Long Term (7 to 15 yrs.)	13.00	13.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/8/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02045	48.89
Canada	.8107	1.2335
Denmark	.1120	8.9305
France	.1407	7.1075
Germany	.3971	2.5185
Italy	.0007021	1424.30
Japan	.003738	267.55
Mexico	.009174	109.00
Netherlands	.3642	2.7460
Switzerland	.4655	2.1483
U.K.	1.7073	.5857

in Europe may not come down as rapidly as they have in the U.S., further discouraging their economic recovery.

Until there is a more general confidence on the part of financial markets that inflationary pressures have been decisively reversed in the United States which will allow for further substantial cuts in our interest rates, it is unlikely that Europe will be able to follow suit, setting the stage for recovery.



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But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 18, 1982
VOLUME XIX, NUMBER 42

Reports Of The Death Of Monetarism . . .

Despite the soggy pace of business activity, double-digit rates of unemployment and soaring numbers of business bankruptcies, the financial markets have experienced powerful and broad-based rallies, apparently marching to the beat of a different drummer than the real economy. Underlying the euphoria is a pervasive belief that the Federal Reserve has reordered its priorities, from combating formerly high rates of inflation at the expense of creating a recession, to setting the stage for a revival of economic activity. If so, according to this view, such a course of action must entail stepped-up central bank efforts to guide interest rates lower, regardless of near-term trends in the money supply. In turn, this would diminish, if not altogether eliminate, the possibility of a firming of the credit reins any time soon.

DURATION AND DEPTH OF POST-WORLD WAR II RECESSIONS

Cycle Peak — Trough	Duration In Months	Depth Decline in Industrial Production	Depth Peak Jobless Rate	Depth Lowest Rate Capacity Utilization
Nov 48–Oct 49	11	–10.1%	7.9%	71.7%
Jul 53–May 54	10	– 9.4	6.1	79.4
Aug 57–Apr 58	8	–13.5	7.5	71.3
Apr 60–Feb 61	10	– 8.6	7.1	73.5
Dec 69–Nov 70	11	– 6.8	6.1	75.8
Nov 73–Mar 75	16	–15.1	9.0	69.0
Jan 80–Jul 80	6	– 8.3	7.8	74.9
AVERAGE	10	–10.3	7.4	73.7
Jul 81–To Date	15	–10.8	10.1	69.4

As if on cue—and on the same day that the Labor Department announced that the unemployment rate in September reached its highest level in over 40 years—the Fed cut the discount rate by one-half percentage point. Thus it lent credence to those beliefs that a fundamental change in monetary policy was underway—and stock and bond prices promptly soared. But while these financial developments are certainly a welcome change in an otherwise bleak economic picture, it may be too soon to mark this period as either a watershed for monetarism in general, or the basic, inflation-fighting thrust of monetary policy in particular. For, simply put, the Fed's decision to both "attach much less than usual weight" to short-term fluctuations in the level of M1 as well as tolerate above target money supply growth in coming weeks, represents more of an evolution of existing policy, rather than a fundamental retreat from the Fed's own particular brand of monetarism.

Take, for example, admonishments that weekly gyrations in M1 can safely be ignored, at least for a while. Although this may come as a surprise to some, the Fed has cautioned against reading too much significance into the weekly numbers almost since its switch to monetarism back in 1979. This is because of the substantial amount of "noise" associated with any weekly statistic, as well as the inadequate seasonal adjustment factors which have plagued M1 for years. Add to this the almost certain

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distortions that will arise from the maturing of more than $31 billion of All-Savers certificates in October (a good-sized chunk of which may, at least temporarily, end up in M1) and the soon-to-be-introduced bank money market fund-type accounts, and it becomes more likely than ever that near-term trends in M1 may be unreliable guides to future developments in the economy and prices.

. . . May Be Greatly Exaggerated . . .

Central bank tolerance of above target money growth, probably for at least the balance of this year, reemphasizes, rather than departs from, past policy statements and actions. All year long, the Fed has been hesitant to lean against beginning-of-quarter money supply bulges. This was stated publicly last February by Fed Chairman Paul A. Volcker. And it was reiterated early last summer when the policy-setting Federal Open Market Committee stated clearly that the Fed "would tolerate for some period of time growth somewhat above the target range should unusual precautionary demands for money and liquidity be evident . . ." (Financial Digest—September 13, 1982). With few signs on the horizon that recovery was near, legislative and regulatory changes distorting the significance of near-term trends in M1, and year-to-date money supply growth running at less than one per cent above its upper target boundary, the Fed apparently decided to continue tolerating above-target money growth—only now the markets

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/6/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.749	+ .999	+11.205
Loans to Depository Inst.	.604	– .145	– .541
Float	1.706	– .069	– 2.376
Total Reserve Bank Credit	153.902	+ 1.136	+ 8.976
Treasury Deposits with Federal Reserve Banks	4.704	+ .215	+ 1.159
Currency Outside Banks	131.577	+ .985	+ 9.201
Member Bank Reserves:			
Required	39.731	– .548	– .401
Excess (Deficiency)	.607	+ .324	+ .404
Total Reserves Held	40.338	– .224	+ .003
Net Free Reserves	.107	+ .461	+ .893
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	98.783	+ .844	+ 7.941
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	464.9	+ 10.0‡	+ 6.9‡
M2 (September '82)	1,954.8	+ 9.8	+ 9.9
M3 (September '82)	2,363.1	+ 11.7	+ 10.5
L (June '82)	2,797.8	+ 12.0	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/15/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.30%	7.60%	8.05%
* Federal Agencies	7.55	8.60	9.60
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.15	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.25	9.40	9.95

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Nov.	9.10%
15- 29 days	8.50	Dec.	9.10
30- 59 days	8.63	Jan.	9.10
60- 89 days	8.63	Feb.	9.10
90 179 days	8.63	Mar.	9.10
180-239 days	8.63	Apr.	9.00
240-270 days	8.63		

‡Industrial Paper—Prime			
30- 89 days	8.50%	†Federal Funds	
90-120 days	8.50	Effective Rate	9.40%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Sep '82n	– 1.2%	7.2%	2.4%
Civilian Employment (Thousands of Persons)†	Sep '82	99,720	99,839	100,258
Unemployment as % of Civilian Labor Force†	Sep '82	10.1%	9.8%	7.6%
Personal Income*	Aug '82	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100)†	Aug '82	128.6	129.8	134.1
Industrial Production Index (1967=100) †	Sep '82n	137.3	138.1	151.6
Net Change in Consumer Installment Credit†	Aug '82	$ 0.07	$ 0.57	$ 2.43
U.S. Merchandise Trade Balance †	Aug '82	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Aug '82n	$ 515.6	$ 513.4	$ 510.1
Total Business Sales†	Aug '82n	$ 339.1	$ 344.6	$ 354.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

were relieved, instead of concerned, as they had been previously.

But by tolerating above-target money supply growth at this time, the Fed accomplishes much more than providing a near-term fillip to the financial markets. It sets the stage for a further loosening of the credit reins next year. For lost amidst the forest of what Federal Reserve Governor Henry C. Wallich has called "creative imaginative reporting" of policy shifts and monetarism abandoned, the central bank is, if not in word then certainly in deed, heeding the rising chorus of calls that next year's M1 growth targets of 2½ to 5½ per cent be lifted. Since these targets are calculated from the fourth quarter average of the series in one year to the fourth quarter average of the following year, by permitting above target money growth to occur during the final quarter of this year, the Fed raises the base from which 1983's money supply target range will be charted. This allows a bigger increase in the money supply than would have otherwise occurred if the base period was either within, or below, 1982's target range.

What this means is that if year-to-date M1 growth stays just one per cent above its upper target boundary throughout the fourth quarter, and then expands by a further 2½ per cent in 1983 (the tentative lower target boundary), by the end of next year, M1 will stand five per cent above the midpoint of this year's target range. On the other hand, if M1

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/29/82)	148,230	− 657	+18,868
New York City (9/29/82)	37,157	− 1,641	+ 5,304
Commercial Paper (9/29/82)	172,449	− 1,672	+10,733

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/29/82)	217,415	+ 488	+29,024
New York City (9/29/82)	61,222	− 354	+ 6,503

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/29/82)	499,972	+ 2,360	+39,409
New York City (9/29/82)	119,526	+ 1,111	+ 6,835

Financial Markets

	Friday 10/15/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.60%	− .01	− 6.30
180-Day Bills†	8.13	− .57	− 6.52
Longest Bills†	8.80	− 1.40	− 6.10
Recent Issues:			
12$\frac{1}{8}$s 9/30/84	9.80	+ .06	
12$\frac{1}{4}$s 9/30/86	10.41	− .01	
13$\frac{3}{4}$s 5/15/92	11.14	− .05	
14s 11/15/11	10.85	− .18	
Municipals:			
Bond Buyer–20 Bond Index* (10/14/82)	9.25%	− .50	− 3.28
Blue List Total ($ Million)	$1,086	+$ 228	+ $ 389
30-Day Visible Supply ($ Million)	$3,467	+$ 921	+ $2,011
Total	$4,553	+$1,149	+ $2,400
Corporates:			
Moody's Aa Composite (10/14/82)	12.83%	− .34	− 2.68
30-Day Visible Supply ($ Million) ‡	$1,210	+$ 400	NA
Stocks:			
Dow-Jones Averages:			
Industrials	993.10	+ 6.25	+ 141.41
Transportation	401.98	+ 16.19	+ 38.27
Utilities	121.26	+ 1.01	+ 18.18
65 Stocks	385.27	+ 6.27	+ 50.27
Standard and Poor's 500 Stocks	133.57	+ 2.52	+ 14.38
N.Y.S.E. Composite Index	76.74	+ 1.74	+ 7.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	118,642	+20,754	+ 79,730

* 46% Taxable equivalent 17.13%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 10/15/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.63%	9.63%
1 month	10.00	10.63
3 month	10.31	10.75
6 month	10.44	11.13
1 year	10.81	11.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.90%	12.80%
Long Term (7 to 15 yrs.)	12.80	13.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/15/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02042	48.97
Canada	.8118	1.2318
Denmark	.1111	9.0000
France	.1400	7.1415
Germany	.3964	2.5227
Italy	.0006946	1439.50
Japan	.003714	269.28
Mexico	.009346	107.00
Netherlands	.3632	2.7530
Switzerland	.4641	2.1548
U.K.	1.7030	.5872

grows by the maximum acceptable rate of 5½ per cent, by yearend it will be more than eight per cent higher than this year's midpoint. However, because overshooting this year's upper target boundary would be the opposite of developments in the fourth quarter of 1981, it should have the opposite effect on interest rates. Last year at this time, the actual level of M1 fell well below its lower growth target boundary, causing allowable money supply growth in 1982 to be unduly restrictive, and lofty real interest rates to develop. This led to widespread business failures and stresses in the financial system. It is not inconceivable that current monetary policy will keep interest rates down over the next few months, thus helping to brighten the economic scene.

. . . But The Health Of The Economy . . .

Meanwhile, conditions remain gloomy. In September, 11.3 million people looked for work but could not find it. This represented 10.1 per cent of the labor force—a dismal picture, especially when improvement is not imminent.

Traditionally, developments in the unemployment situation lag the swings in the economy by several months. Following the past four recessions, recovery had been firmly underway for an average of six months before the job market improved. But currently, the economy remains mired in recession as demand for business output continues to decline, leading to a renewed rise in inventories. In an effort to trim excess stocks, production lines slowed further in September—dropping by 0.6 per cent, month-over-month—with the slide in industrial production since the beginning of the recession totaling 10.8 per cent (see table on page 1). This could presage even more layoffs; weekly initial claims for unemployment insurance remain at the highest level since the onset of this recession.

The deterioration in job market conditions was again concentrated in the already suffering manufacturing sector, especially in the durable goods area. In the primary metals industries, which include copper and steel, one out of every four workers was unemployed in September. In nondurable manufacturing, the shrinking textile industry registered an 18.2 per cent unemployment rate, up from 15 per cent in August. The hard-hit construction sector has 17.2 per cent of its labor force looking for jobs.

. . . Remains Precarious

In contrast to the previous four recessions, however, this time around there has been a marked reduction in jobs in the service sector. In these cycles, there were substantial layoffs in other areas, but employment in the service sector always kept on increasing. Since the start of the current recession, however, employment in this area contracted by almost 200,000 workers. And in response to the ongoing depressed sales of autos, furniture, appliances, apparel and other durable and nondurable goods, many wholesale and retail establishments have been forced to cut their payrolls. Last month, they laid off 56,000 workers.

Importantly, employment at all levels of government has been reduced sharply. As a consequence of cutbacks in many federal spending programs and the growing reluctance of local electorates to pay more for state and local government, more than 400,000 government employees, mostly at the state and local level, have been laid off since the start of this recession; 90,000 lost their jobs last month alone.

One consolation is that most of the unemployed are not the sole breadwinners in their households—as was the case 42 years ago, the last time the nation experienced double-digit unemployment. More than 50 per cent of all those who are out of work today have at least one other person in their family working to help soften the blow of lost earnings. For example, the unemployment rate among married men in September was 7.3 per cent, but some 55 per cent had another family member helping out.

Despite the Administration's boasts about the improved purchasing power of those still working, things are not so rosy for the employed either. To be sure, the tax cut and the deceleration in inflation were helpful. However, wages and salaries per employed person have expanded at a very slow pace in the past year. At times, they even declined as large numbers of workers were forced to accept lower pay—giving concessions to employers to preserve their jobs—and reduced work schedules. In the seven months ending in July, wages and salaries per employed person rose by slightly more than two per cent. This did not even keep up with inflation—much less tax bracket creep—resulting in a net erosion in buying power of two tenths of one per cent.

B5350-2 10/26/82

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 25, 1982

VOLUME XIX, NUMBER 43

The Economy Struggles Along . . .

One by one, the statistics coming out of Washington continue to confirm the stubbornly depressed state of the economy. Not only have signs of the long-awaited recovery vanished from the horizon, but the recession seems to be deepening. Concerned with climbing unemployment and uncertain about the future, consumers are keeping a tight rein on their purse strings. As a result, overall business sales resumed their protracted slide in the third quarter, causing inventories to swell, despite drastic cuts in factory production. Confirming this weakness, the inflation adjusted Gross National Product expanded by a scant 0.8 per cent at a seasonally adjusted annual rate in the third quarter compared with the second, failing to meet the Commerce Department's earlier prediction of a 1.5 per cent rise.

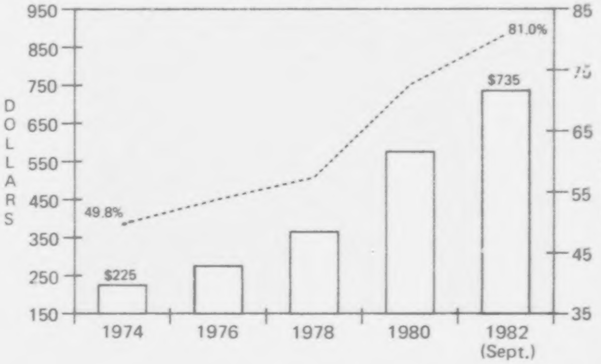
But the pace of business is even slower than this small advance in the "real" GNP indicates. This is because there was a $0.7 billion increase at an annual rate in business inventories during the third quarter—the first increase in over six months—in sharp contrast to the second quarter's $4.4 billion runoff. Increases in inventory, for whatever reason, add to the GNP but this time can hardly be considered a sign of strength, since real sales to final consumers fell at an annual rate of 0.6 per cent.

The largest accumulation of inventories occurred at the wholesale and retail levels. Earlier in the quarter, merchants were preparing for a seasonal upturn in sales, which usually takes place in late summer and early fall, but as demand fell below expectations, stocks soared. On the other hand, manufacturers were able to respond quickly by slowing factory production—especially in the durable goods industries—and their inventories were pared down. Substantial chunks of operating capacity were idled and utilization dropped to 69.1 per cent of capacity in September, falling barely short of the postwar low of 69 per cent reached in the depths of the 1973-75 recession.

. . . But Declining Interest Rates . . .

Importantly, the two most powerful locomotives which alone could pull the economy out of recession and, conversely, without which a sustainable recovery is unlikely—the automobile and housing industries—remain in the doldrums. But while the auto industry is having its problems, including high-sticker prices and buyer perception of poor quality, there is nothing wrong with the housing industry that a substantial break in interest rates could not cure. And there may be hope. Some consumer loan rates have begun to decline with further retreats likely—at least in the short term.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS.
% OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY
A NEW HOME (DOT)



The impact of swings in interest rates on people's ability to buy is greater for home purchases than for any other outlay an average consumer makes in his or her lifetime. Rates on conventional 25-year mortgages averaged about 15¾ per cent in September, down from this year's peak of 17 per cent reached in March. Even with this small drop, the buyer of a median priced home of $73,200, who puts 25 per cent of the purchase price as a down payment, would save $55 per month. Taking into account the rule of thumb that a household should not spend more than one-quarter of its monthly gross income for servicing its mortgage, 19 per cent of first-time homebuyers would be able to afford to buy a home. Only two months ago, when the mortgage interest rate was 16½ per cent, about 85 per cent of U.S. families were excluded from the market. The saving is even greater for those who qualify for such government backed mortgages as VA and FHA, which currently have a ceiling rate set

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at 12½ per cent—the lowest in over two years.

. . . Could Easily Rescue Housing

Nevertheless, the current level of interest rates still prevents most families—especially those who have never owned a home before—from buying. To compare, in 1974, for example, half of the families in the nation were able to afford to buy a home (see chart on page 1). At today's home prices, the interest rate would have to fall to eight per cent for the same proportion to qualify.

Interestingly, over this eight-year period, the median purchase price of a new home rose roughly at the same pace as median family income. However, the estimated monthly payment rose twice as fast, due to the jump in finance charges—especially over the past three years. Finally, though it may be believed in some quarters that people are spending increasingly larger proportions of income to service their mortgages, the United States League of Savings Associations reports that the proportion of homebuyers spending more than 25 per cent of their gross income on mortgage payments has declined from almost 46 per cent in 1979 to 44.9 per cent last year. In 1981, the median monthly payment represented less than 20 per cent of the median income of all who bought homes in that year.

Last month's rise in housing starts was due to factors other than lower mortgage rates in the marketplace. New construction of single family

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/13/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.336	– 1.413	+ 8.352
Loans to Depository Inst.	.360	– .244	– .750
Float	2.323	+ .646	– .686
Total Reserve Bank Credit	152.593	– 1.280	+ 7.317
Treasury Deposits with Federal Reserve Banks	2.819	– 1.885	– .138
Currency Outside Banks	133.017	+ 1.443	+ 9.306
Member Bank Reserves:			
Required	38.883	– .848	– .855
Excess (Deficiency)	.515	– .063	+ .152
Total Reserves Held	39.398	– .911	– .703
Net Free Reserves	.225	+ .147	+ .814
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.939	+ 2.156	+ 9.776

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	468.3	+ 11.9‡	+ 7.3‡
M2 (September '82)	1,954.8	+ 9.8	+ 9.9
M3 (September '82)	2,363.1	+ 1.7	+ 10.5
L (June '82)	2,797.8	+ [illegible].0	+ 11.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/22/82	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.50%	7.95%	8.30%
* Federal Agencies	7.05	8.80	10.20
* Project Notes—Taxfree (46% Taxable Equivalent)	7.50	8.33	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.95	9.10	9.95

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Nov.	8.65%
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90-179 days	8.25	Mar.	8.85
180-239 days	8.25	Apr.	8.65
240-270 days	8.25		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	8.63%		
90-120 days	8.63	Effective Rate	9.40%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82n	$ 3,091	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82n	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82n	0.8	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Sep '82	– 1.2%	7.2%	2.4%
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U.S. Merchandise Trade Balance †	Aug '82	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Sep '82n	1,146	1,002	899
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories †	Aug '82	$ 515.6	$ 513.4	$ 510.1
Total Business Sales †	Aug '82	$ 339.1	$ 344.6	$ 354.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

homes barely budged from the month-earlier level, but starts of multi-family dwellings increased by 27 per cent. This occurred because builders depending on federal subsidies had to start construction to meet the October 1 deadline to benefit from such incentives as eventually being able to charge higher rents. As a result, starts of these government-backed buildings climbed to 30,000 in September, three times the rate posted in August.

Autos Have Other Problems

While swings in interest rates have a profound impact on home purchases, their influence on monthly auto payments is very small. For example, each one percentage point drop in the finance charge for a buyer of a median-priced automobile ($9,750) saves only $3.62 per month.

But while the auto industry continues to be plagued by its well-known image, quality and pricing problems, the inability to get car sales up goes beyond that. It seems that in its struggle to compete with the Japanese, Detroit has been emphasizing mostly fuel economy and workmanship in its marketing efforts, leaving out the age-old reason why people bought new cars. to have fun! Apparently, people still want to have a "love affair" with the automobile, witness the success of the Camaros, Firebirds and Chrysler convertibles, despite their above average price!

Another deterrent to sales may be that manufacturers no longer wait until late September to

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/6/82)	147,998	– 202	+16,970
New York City (10/6/82)	37,122	– 35	+ 4,716
Commercial Paper (10/6/82)	173,630	+ 1,180	+10,434

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/6/82)	220,026	+ 2,711	+31,605
New York City (10/6/82)	62,685	+ 1,463	+ 7,813

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/6/82)	502,562	+ 3,000	+42,173
New York City (10/6/82)	120,066	+ 540	+10,128

Financial Markets

	Friday 10/22/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.90%	+ .60	– 5.85
180-Day Bills†	8.60	+ .47	– 6.17
Longest Bills†	9.20	+ .40	– 5.88
Recent Issues:			
$9\frac{3}{4}$s 10/31/84 (When Issued)	9.98	NA	
$12\frac{1}{4}$s 9/30/86	10.61	+ .20	
$13\frac{3}{4}$s 5/15/92	11.34	+ .20	
14s 11/15/11	11.01	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (10/21/82)	9.69%	+ .44	– 3.30
Blue List Total ($ Million)	$1,420	+$ 334	+ $ 627
30-Day Visible Supply ($ Million)	$4,338	+$ 871	+ $2,143
Total	$5,758	+$1,205	+ $2,770
Corporates:			
Moody's Aa Composite (10/21/82)	12.79%	– .04	– 3.05
30-Day Visible Supply ($ Million) ‡	$1,260	+$ 50	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1031.46	+ 38.36	+ 193.47
Transportation	439.37	+ 37.39	+ 72.21
Utilities	121.54	+ .28	+ 18.35
65 Stocks	404.18	+ 18.91	+ 70.92
Standard and Poor's 500 Stocks	138.83	+ 5.26	+ 20.23
N.Y.S.E. Composite Index	79.68	+ 2.94	+ 10.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,540	–17,102	+ 56,612

* 46% Taxable equivalent 17.94%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/22/82	Week Ago
Overnight	9.50%	9.63%
1 month	9.56	10.00
3 month	9.75	10.31
6 month	10.00	10.44
1 year	10.38	10.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.70%	12.90%
Long Term (7 to 15 yrs.)	12.65	12.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/22/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02043	48.95
Canada	.8153	1.2266
Denmark	.1125	8.8925
France	.1401	7.1400
Germany	.3960	2.5253
Italy	.0006929	1443.20
Japan	.003676	272.00
Mexico	.009217	108.50
Netherlands	.3635	2.7510
Switzerland	.4607	2.1708
U.K.	1.6980	.5889

unveil new models. A new sell-when-they-are-ready approach seems to have replaced the fall introduction as automakers rush to bring competitive products to the market. Lost, however, is the traditional fanfare and excitement as people no longer have the inducement to rush to the showrooms to look at the new models. What is more, there was even less to cheer about this September. With only a few improvements, most of the '83 introductions were carryovers from the 1982 models, looking much like their predecessors.

But even within the depressed automobile industry there are some bright spots. Sales of such recreational vehicles as motor homes and camping trailers are up by eight per cent so far this year, on top of a 32 per cent year-over-year jump in 1981. Furthermore, sales of light trucks which include vans, mini pickup trucks and sports utility vehicles were 13.5 per cent above last year's level for the first nine months of the year; in September alone they soared 30 per cent, year-over-year!

The most important factors behind this improvement are the greater availability and lower price of gasoline, as these vehicles are not very fuel-efficient despite recent improvements. What is more, aiding sales of RVs is the renewed interest in driving vacations. According to the U.S. Travel Data Center, Americans seem to be taking longer vacation trips. In a survey taken earlier this year, they expected to drive an average of some 1,000 miles this summer, up from 860 miles last year.

In addition to improved fuel efficiency, sales of light trucks grew as a result of an introduction of numerous new domestic products. These are compact mini pickup trucks, which people generally buy for personal use as a substitute for a car. Most of the other categories of light trucks have also been doing well. In addition to the practical aspect of owning them, people buy them for fun, as they can be driven off the road—in mountains and on beaches, for example.

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